US Market Wrap

2nd April 2024: Stocks tumble as Treasuries bear steepen and commodities rip

- **SNAPSHOT**: Equities down, Treasuries steeper, Crude up, Dollar down.
- **REAR VIEW**: Soft German inflation figures; Dismal Q1 TSLA delivery numbers; JOLTS more-or-less inline; Mester and Daly say three rate cuts is a good baseline scenario for the year; Weak PVH outlook.
- **COMING UP**: **Data**: Japanese PMIs (F), Caixin Services PMI, EZ CPI, Italian Unemployment Rate, US ADP, ISM Services, Australian PMI (F) **Events**: OPEC+ JMMC **Speakers**: Fed’s Bowman, Goolsbee, Powell, Barr, Kugler **Supply**: Germany **Earnings**: Exxon.

MARKET WRAP

Stocks saw notable selling on Tuesday, extending the April rot, amid various micro factors in the backdrop of an aggressive Treasury bear-steepener. Treasuries saw large bear-steepening on Europe's return, despite soft German inflation figures, as oil prices ripped and Europeans reacted to the long weekend's events. However, Fed expectations were little changed for the year-end, with Fed's Daly and Mester both noting today that three rate cuts looks like a good baseline (same as the Fed median SEP view). In stocks, Tesla (TSLA) added particular pressure on the Nasdaq after very poor Q1 delivery figures, while semiconductors were another pocket of weakness. Elsewhere, there was pressure in the apparel space after PVH's (PVH) awful guidance, citing weakening consumer trends in Europe, especially Germany and the UK. Health insurance names were slammed after the final Medicare Advantage rate has ignited margin concerns. In FX, the Dollar was lower with some profit taking in Euro shorts after the soft German regional inflation figures, while commodity currencies prospered amid the further rip in oil and metals, including gold. Bitcoin extended its selloff, and is flirting either side of USD 65k.

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MESTER (voter, but retiring at June-end) said to reporters after the speech that three rate cuts this year is still reasonable, putting her in line with the Fed's median Dot from the March FOMC. Mester also said the May 1st meeting is too soon for a rate cut but later said she would not rule out a June cut. The Cleveland Fed President also confirmed that she now sees the longer run funds rate at 3% versus her prior 2.5% forecast, where she says it had been for some time, that compares to the Fed median of 2.6%, where only four dots were higher than 3% and there were three dots at 3% including Mester. In her speech, Mester said that if the economy evolves as expected, she expects that the Fed will be able to move rates down gradually as inflation and inflation expectations move down, but she also warned that moving rates down too soon or too quickly without sufficient evidence would risk undoing the progress made, which she sees as the bigger risk at the moment (vs waiting too long to cut).

DALY (2024 voter) said standing pat is the right policy for the moment and three rate cuts this year is a "reasonable" baseline (on Feb 16th, she said three cuts was a good baseline for the year). Further on rates, Daly said need to see how long to leave rates where they are, no urgency to adjust the rate, and there is a real risk of cutting rates too soon. On inflation, said it is coming down, bumpy and slow, and there is further work to do before being confident inflation is on the right path.

JOLTS: JOLTS job openings for February came in more-or-less inline at 8.756mln (exp. 8.75mln), although January’s was revised lower to 8.748mln from 8.863mln, with the quits rate unchanged at 2.2%, albeit the prior months was revised higher from 2.1%, which was the post-COVID low. As Oxford Economics illustrates, the data is consistent with a labour market that is still quite healthy, easing concerns among Fed officials about the downside risks to the economy from taking a patient approach toward rate cuts. On the quits rate, it is still below pre-pandemic levels and consistent with the consultancy's view of gradually easing wage growth to a pace compatible with the Fed's inflation target of 2%.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 6+ TICKS LOWER AT 109-23

Treasuries saw large bear-steepening on Europe's return, despite soft German inflation figures, as oil prices ripped. 2s -1.7bps at 4.701%, 3s -0.9bps at 4.515%, 5s +1.3bps at 4.350%, 7s +2.7bps at 4.366%, 10s +3.2bps at 4.361%, 20s +4.0bps at 4.617%, 30s +3.9bps at 4.506%.

INFLATION BREAKEVENS: 5yr BEI +3.3bps at 2.412%, 10yr BEI +2bps at 2.375%, 30yr BEI +1.9bps at 2.321%.

THE DAY: Treasuries saw a mild recovery into the APAC Tuesday session after Monday's tumble. T-Notes hit session peaks of 110-03 during Tokyo trade with a strong 10yr JGB auction providing some support. However, prices began dipping lower again as European trade entered the horizon. EGBs and Gilts saw catch up selling after reopening from the long weekend. The soft German regional inflation figures only provided a brief respite for fixed income before better selling resumed with attention on the broader commodity bid.

T-Notes were hugging their March lows of 109-24+ at the NY handover before stateside traders continued to hit the bid into their session, with the long end leading the selling while the front end remained much better supported. The flow was one-way after then, with a few corporate debt deals only adding to the duration selling. T-Notes bottomed at 109-14+ in the NY morning, ahead of their YTD lows from February of 109-09, while Bonds were already printing fresh lows. The JOLTS data had little surprises in it and contracts recovered somewhat from there into the afternoon, although T-Notes failed to muster any further than 109-25. There was little reaction later on to Fed's Mester and Daly both saying three rate cuts is a good baseline scenario for the year.

Attention now on Wednesday's ADP and ISM Services, with Fed's Bowman, Goolsbee, Powell, Barr, and Kugler all on the calendar. Before then we get Chinese Caixin services PMI, EU CPI, and a German Bund auction.

STIRS:

- SR3M4 +2.5bps at 94.85, U4 +2bps at 95.08, Z4 +2bps at 95.355, H5 +2bps at 95.61, M5 +1bps at 95.82, U5 +0.5bps at 95.99, Z5 -0.5bps at 96.10, H6 -1.0bps at 96.17, M6 -1.5bps at 96.205, M7 -2.5bps at 96.25, M8 -3.5bps at 96.19.
- SOFR rises to 5.35% on April 1st from 5.34% on March 28th, volumes rise to USD 2.023tln from 1.911tln.
- NY Fed RRP op demand at USD 0.448tln (prev. 0.442tln) across 73 counterparties (prev. 74)
- EFFR flat at 5.33%, volumes rise to USD 93bln from 62bln.
- US sold USD 65bln of 42-day CMBs at 5.280%, covered 3.12x.
- US leaves 4-, 8-, and 17-week bill auction sizes unchanged at USD 70bln, 75bln, and 60bln, respectively; 4- and 8-week to be sold on April 4th and 17-week bills on April 3rd; all to settle on April 9th.

CRUDE

WTI (K4) SETTLED USD 1.44 HIGHER AT 85.15/BBL; BRENT (M4) SETTLED USD 1.50 HIGHER AT 88.92/BBL

Oil prices continued their bullish trend on Tuesday amid fresh Ukraine drone strikes and broader commodity strength. WTI (K4) and Brent (M4) hit session peaks of USD 85.46/bbl and 89.08/bbl, respectively, at the NY handover, which followed reports in the European morning that a Ukraine drone had struck Russia's Astrakhan plant, one the country's largest refineries. A Ukrainian intelligence source said to Reuters that attacks on Russian refineries will continue in order to reduce Russia's oil revenue. Meanwhile, energy traders are looking towards the US energy inventory data on Wednesday with the unofficial private data due later on Tuesday. Current expectations (bbls): Crude -1.5mln, Gasoline -0.8mln, Distillate -0.6mln.

EQUITIES

CLOSES: SPX -0.27% at 5,205, NDX -0.94% at 18,121, DJIA -1.00% at 39,170, RUT -1.80% at 2,065.

SECTORS: Health -1.62%, Consumer Discretionary -1.27%, Real Estate -1.12%, Technology -0.97%, Consumer Staples -0.57%, Industrials -0.52%, Financials -0.44%, Materials -0.41%, Communication Services +0.1%, Utilities +0.17%, Energy +1.38%.

EUROPEAN CLOSES: DAX: -1.09% at 18,291, FTSE 100: -0.23% at 7,935, CAC 40: -0.92% at 8,130, Euro Stoxx 50: -1.22% at 5,044, IBEX 35: -0.89% at 10,976, FTSE MIB: -1.17% at 34,343, SMI: -1.11% at 11,601.

STOCK SPECIFICS:

- **Tesla (TSLA)** -5%: Q1 deliveries way short of expectations (386.8k, exp. 449k), and said decline in volumes during Q1 was partially due to early phase of production ramp of updated Model 3 at the Fremont factory and shutdowns.
- **Alphabet (GOOG)** -0.5%: Google will destroy billions of data records to settle a lawsuit claiming it secretly tracked the internet use of people who thought they were browsing privately.
- **Disney (DIS)** +1%: Said to be winning a proxy battle against activist investor Peltz.
- **PVH (PVH)** -22%: Next quarter and FY guidance very light warning of a tougher macroeconomic setup and particular weakness in Europe.
- **Verve Therapeutics (VERV)** -35%: Pauses enrollment in Heart-1 trial of VERVE-101.
- **SLB (SLB)** -1% **ChampionX (CHX)** +10.5%: SLB to acquire CHX in a USD 7.7bln all-stock transaction.
- **Health insurance names (HUM, UNH, ELV, CI)** were lower after CMS announced rates for the 2025 calendar year will increase 3.7%, as previously proposed. Some investors had anticipated a larger hike.
- **Estee Lauder (EL)** +0.5%: Upgraded at Citi.
- **Rivian (RIVN)** -5%: Missed Q1 production estimates.
- **Endeavor (EDR)** +2%: Silver Lake is to take Endeavor private for USD 27.50/shr in cash; TKO (TKO) is not party to this transaction and will remain a publicly traded company.

US FX WRAP

The Dollar was lower on Tuesday as it failed to hold above 105.00 but JOLTS data and a slew of Fed Speak failed to garner much reaction from the Greenback. The former was more-or-less inline at 8.756mln (exp. 8.75mln), although January's was revised lower to 8.748mln from 8.863mln, with the quits rate unchanged at 2.2%, albeit the prior months was revised higher from 2.1%. On the Fed footing, Mester (2024 voter) still expects Fed can cut rates later this year but doesn't see the case for cutting at next meeting but didn't rule out a June cut, and she said she sees three cuts this year as still reasonable. Daly (2024 voter) also noted three rate cuts this year is a "reasonable" baseline, and there is a 'real risk' of cutting rates too soon. Looking ahead, there is plenty of Fed speak this week with the highlight being Fed Chair Powell speaking on economic outlook on Wednesday at 17:10BST/12:10EDT (Newsquawk primer available here).

AUD was the G10 outperformer and benefitted from the rally in metals and China optimism, as AUD/USD hit a peak of 0.6523 against a trough of 0.6484. For the record, RBA Minutes stated members agreed it is appropriate to leave rates unchanged and there was no mention in the minutes that the board considered the option to raise rates, while RBA assistant governor Kent said the outlook for inflation and policy is uncertain. On account of the Aussie strength, NZD saw mild gains against the Buck as the cross traded between 0.5944-73.

EUR and **GBP** saw very mild gains against the Buck, as they seemingly benefitted from Dollar weakness despite the single-currency initially on the backfoot following the soft ECB inflation survey and regional German CPI. EUR/USD hit a low of 1.0725 with the 15th February low at 1.0723 and YTD trough at 1.0695 the next levels to watch to the downside. For the rest of the week, EU HICP and unemployment data is on Wednesday.

JPY and **CAD** were both flat, and during APAC Finance Minister Suzuki said it is important for currencies to move in stable manner reflecting fundamentals and rapid FX moves are undesirable, and won't rule out any steps to respond to disorderly FX moves. USD/JPY traded within narrow parameters, with a high of 151.80 and a low of 151.47. CAD was flat despite the firmer oil prices.

EMFX was largely firmer vs. the Greenback. CLP and ZAR benefitted off the strength in copper and gold prices, respectively, as metals saw a broad-based rally in wake of the better-than-expected Chinese Caixin Manufacturing PMI. Elsewhere, MXN, COP, and TRY firmer, while BRL was flat and RUB saw losses. For the Real, Brazil economic policy secretary Mello said the trade balance helps them maintain the exchange rate at a reasonably stable rate, while for the TRY, ahead of inflation data on Wednesday, CBRT Governor said steps towards disinflation reflecting on financial conditions, demand and pricing behaviour.