US Market Wrap

3rd April 2024: Stocks and bonds chop while Dollar flops on soft ISM Services

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down
- **REAR VIEW**: Soft ISM services; Strong ADP; Powell sticks to the script; Bostic expects rate cuts to start Q4; Soft EZ CPI; Holzmann open to June rate cut; Taiwan earthquake; DIS CEO Iger wins proxy fight vs Trian.
- **COMING UP**: **Data**: Swiss CPI, EZ & UK PMI, EZ Producer Prices, US Challenger Layoffs, IJC, Canadian Trade **Events**: BoE Decision Maker Panel; ECB Minutes **Speakers**: RBA's Jones; Fed's Harker, Barkin, Goolsbee, Mester, Kashkari **Supply**: Spain, France, UK and US **Earnings**: Volvo.

MARKET WRAP

Stocks and bonds were choppy while the Dollar took a hit on the soft ISM services PMI. Stocks started the session on the front foot in wake of the ISM data while T-Notes pared the earlier ADP-induced weakness. Fed Chair Powell largely stuck to the script which only pushed stocks and bonds higher and the DXY lower as the hot data seen recently appears to not have phased the Fed Chair. Although stocks had jumped throughout the majority of the session, gains pared in the last hour of trade as traders unwound positions. Crude prices were bid throughout the morning, albeit settled off best levels, after continued geopolitics, OPEC JMMC and the weekly EIA data. The DXY tumbled throughout the session, particularly on the soft ISM Services print which also saw prices paid ease, at odds with the strong/hot manufacturing PMI seen earlier in the week. The data and reiterations from Fed Chair Powell saw traders ultimately price in more rate cuts throughout the year. The ADP data initially saw traders pare rate cut bets but the soft ISM data and Powell commentary saw money markets lean dovish again with 72bps of easing priced throughout year-end vs. 66bps in wake of the ADP. Semiconductors tumbled pre-market after Taiwan's strongest earthquake in 25 years which saw TSMC (TSM) halt some of its operations. Nonetheless, the equity upside saw the chip weakness pare with the Semi ETF (SOXX) closing flat.

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ADP: ADP National Employment for March rose to 184k, above the expected 148k, and the prior, revised higher, 155k. Looking at annual pay, the median change in job-stayers was unchanged at 5.1%, while job-changers jumped to 10% from 7.6%. Within the report, ADP Chief Economist noted "March was surprising not just for the pay gains, but the sectors that recorded them. The three biggest increases for job-changers were in construction, financial services, and manufacturing". The economist added that inflation has been cooling, but their data shows pay is heating up in both goods and services. Regarding the gains, the report notes last month saw the biggest jump in hiring since July, led by leisure and hospitality. Overall, job gains were strong across industries with the exception of professional services, where it fell. Looking ahead, attention turns to the US labour market report on Friday, where the headline is expected to rise 200k, with the forecast range 150-250k.

ISM SERVICES: ISM Services was soft, as the headline printed 51.4, shy of the expected 52.7 and the prior of 52.6. Prices paid fell to 53.4 (prev. 58.6), its lowest reading since March 2020, however, respondents indicated that even with some prices stabilizing, inflation is still a concern. Business activity marginally lifted to 57.4 (exp. 56.7, prev. 57.2), while Employment rose to 48.5 from 48.0, but remained in contractionary territory. New orders fell to 54.4 from 56.1. As Oxford Economics notes, "the second consecutive decline does not affect its near-term forecast for above-potential GDP this quarter." The consultancy says this as it states "the growth engine of the economy, consumer spending, is on track for another solid gain in Q1 following the February personal income report, and the loosening relationship between the ISM services survey and GDP, particularly in recent quarters. The drop in the Prices paid component is a welcome sign after the large upside in the manufacturing prices earlier in the week which had reignited some inflationary concerns.

FED'S BOSTIC (2024 voter, hawk) said the economy is maintaining the strong momentum it had, if there is any weakening, it is at a very incremental level. Bostic thinks it is appropriate to cut rates in Q4 this year if the economy evolves as he expects. He also said he still only expects one rate cut in 2024.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 2+ TICKS HIGHER AT 109-25+

Treasuries were ultimately little changed after strong selling post-ADP was unwound on soft ISM Services and typically dovish Powell comments. 2s -2.5bps at 4.676%, 3s -2.0bps at 4.495%, 5s -1.7bps at 4.336%, 7s -1.4bps at 4.353%, 10s -1.2bps at 4.353%, 20s -0.8bps at 4.613%, 30s +0.0bps at 4.509%

INFLATION BREAKEVENS: 5yr BEI -1.2bps at 2.399%, 10yr BEI -0.9bps at 2.364%, 30yr BEI -0.5bps at 2.313%.

THE DAY: Treasuries were choppy during APAC trade on Wednesday, with T-Notes drifting to a session peak of 109-27. Note that JGBs were well supported with IFR reporting the BoJ maintained a high purchase amount at its bond-buying operations amid some speculation it may begin to reduce purchases amid MoF reducing its issuance. However, selling kicked in during the European morning with T-Notes finding interim support at 109-18 before the soft EU inflation figures provided some support, not to mention some dovish remarks from ECB's Holzmann and a strong German Bund auction.

Treasuries remained within ranges as stateside trade got underway, despite fresh peaks in oil, until the upside surprise in the ADP data, which was enough to see T-Notes break to new session lows. T-Notes broke through their Tuesday 109-14+ low and troughed at 109-09+, which was just above the continuous contract YTD low of 109-09 from February, with the cash 10yr yield breaking above 4.40%, which is the 50% retracement of the October '23 peak to December '23 trough. Contracts reversed higher on the soft ISM Services figure with the fall in prices paid boding well for core services inflation. The recovery extended further after Powell, who reiterated his prior remarks but those were more dovish in tone than some of the recent Fed speak from the likes of Bostic and Waller. T-Notes rematched and were capped by their APAC session peaks of 109-27.

STIRS:

- SR3M4 -0.5bps at 94.845, U4 +1.0bps at 95.100, Z4 +2.5bps at 95.385, H5 +2.5bps at 95.635, M5 +2.5bps at 95.850, U5 +2.5bps at 96.020, Z5 +2.0bps at 96.125, H6 +2.0bps at 96.190, M6 +2.0bps at 96.225, M7 +1.5bps at 96.265, M8 +1.0bps at 96.200.
- SOFR at 5.34% (prev. 5.35%), volumes at USD 1.927tln (prev. 2.023tln).
- NY Fed RRP op demand at USD 0.437tln (prev. 0.448tln) across 65 counterparties (prev. 73).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 94bln (prev. 93bln).
- US sold USD 60bln of 17-week bills at 5.20%, covered 2.91x.

CRUDE

WTI (K4) SETTLED USD 0.28 HIGHER AT 85.43/BBL; BRENT (M4) SETTLED USD 0.43 HIGHER AT 89.35/BBL

The crude complex was firmer on Wednesday, albeit settling off best levels, after continued geopolitics, alongside OPEC JMMC and the weekly EIA data. The OPEC JMMC was a non-event with no policy recommendations made and with compliance reaffirmed, as expected. Geopolitics continue to underpin the complex with US and Israel at odds over the Rafah operations whilst Ukraine targets Russian energy infrastructure. On the weekly EIA data, crude stocks saw a surprise build, against the larger-than-expected draw in the private inventory data on Tuesday night. Gasoline and Distillates both saw larger than forecasted draws, in fitting with the APIs, while production was unchanged at 13.1mln. In terms of levels, WTI and Brent hit highs of USD 86.20/bbl and 89.99/bbl, respectively, against the troughs in the European morning of USD 84.85/bbl and 88.67/bbl. Looking ahead, for crude specifically, any Middle East updates remain of importance, while on the macro footing the Fed speaker deluge continues ahead of NFP on Friday.

EQUITIES

CLOSES: SPX +0.11% at 5,211, NDX +0.21% at 18,160, DJIA -0.11% at 39,127, RUT +0.54% at 2,076.

SECTORS: Communication Services +0.71%, Energy +0.66%, Materials +0.63%, Industrials +0.51%, Consumer Discretionary +0.22%, Technology +0.11%, Real Estate +0.06%, Financials -0.08%, Health -0.1%, Utilities -0.42%, Consumer Staples -1.1%.

EUROPEAN CLOSES: DAX: +0.50% at 18,374, FTSE 100: +0.03% at 7,937, CAC 40: +0.29% at 8,153, Euro Stoxx 50: +0.29% at 5,068, IBEX 35: +0.52% at 11,032, FTSE MIB: +0.45% at 34,481, SMI: +0.15% at 11,613.

STOCK SPECIFICS:

- **Intel (INTC)** -8%: Foundry losses have widened, and the unit may not reach a break-even point for several years. Said its foundry business had USD 7bln in operating losses for 2023 vs. USD 5.2bln the year before.
- **Paramount Global (PARA)** +17%: Co. and Skydance are in advanced discussions for a potential deal, NYT reports. WSJ reported the board has agreed to enter exclusive discussions, and they favour it over a recent USD 26bln all-cash offer from a PE firm.
- **Dave & Buster (PLAY)** +10.5%: Board increased share repurchase authorization by USD 100mln, bringing the total to 200mln.
- **Tesla (TSLA)** +1%: In wake of its dismal Q1 delivery numbers, TSLA saw its PT cut at numerous brokerages accompanied by bearish commentary.
- **Signet Jewelers (SIG)** +10%: Raised 2025 EPS guidance.
- **Spotify (SPOT)** +8%: To raise prices by USD 1-2 for individual and family plans.
- **Retailers (FIVE, COST, DLTR, LOW)** are lower after Gordon Haskett downgraded the four names after the recent rally.
- **Disney (DIS)** -3%: CEO Iger wins proxy vote over Peltz with board's election; all 12 nominees re-elected to board.
- **Phillips 66 (PSX)** +2%: Raised quarterly dividend 10% to USD 1.15/shr.
- **Ulta (ULTA)** -15%: Sees Q1 comp 'on lower end' of H1 guide of low single digits and is forecasting a slowdown in total category in Q1.
- **Boeing (BA)** -1.7%: 737 MAX production has fallen sharply in recent weeks as FAA steps up factory audits, according to Reuters sources; rate fell as low as a single-digit number of jets per month in late March.

US FX WRAP

The Dollar was hit on Tuesday with the majority of the weakness in wake of the ISM Services PMI which missed expectations and fell from the prior - prices eased from February but still remaining in expansionary territory. DXY fell from peaks in the European morning at 104.84 to lows of 104.23 heading into APAC trade. Fed Chair Powell also spoke where he repeated his recent commentary noting risks are becoming more balanced.

The Euro was bid thanks to the Dollar slide with EUR/USD rising from lows of 1.0765 to highs of 1.0836, primarily as a function of the Dollar. There was little reaction to the softer-than-expected Eurozone inflation data with HICP rising 2.4% Y/Y (exp. 2.6%, prev. 2.6%). There was also relatively dovish commentary from ECB's Holzmann which saw EUR/USD hit the aforementioned lows. Holzmann said he has no objection to a June rate cut, but he wants to see more supportive data, adding that it is possible that inflation could do even better than the ECB projected.

The Yen was flat vs. the Buck with USD/JPY testing 152.00 after US ADP and ahead of the ISM Services PMI before the soft data gave a helping hand to the BoJ/MoF with USD/JPY paring to c. 151.65.

Cyclical currencies performed well against the Dollar with the Antipodes the G10 outperformers benefitting from upside in equities after the dovish US ISM Services PMI. GBP also saw solid gains with Cable rising above 1.2600 and 1.2650 from lows of 1.2563. CAD saw marginal gains vs. the Dollar supported by the ISM data but analysts highlight a similar rate path to the Fed is likely to keep CAD anchored.

In EMs, CLP outperformed on a surge in copper prices after the Chilean Central Bank raised its 2024 average copper price forecast. The Chile Central Bank also cut rates Tuesday evening by 75bps to 6.50%, in line with expectations. The decision was unanimous and it noted the board will continue cutting rates. BRL also saw gains vs. the Dollar after, primarily due to dollar strength. BCB's Neto noted the disinflation process in Brazil has been in line with their own understanding, but services index has been slightly higher. He also acknowledged that year-to-date, the BRL is relatively okay vs other emerging countries. Neto added that yesterday's FX intervention had nothing to do with the movement of the exchange rate or FX floats. ZAR saw gains as gold pushed to fresh record highs and after Governor Kganyago said they are in talks to lower the SARB's inflation target from the current 3-6%.