US Market Wrap

4th April 2024: Fear of imminent Iran response drives haven bid

- **SNAPSHOT**: Equities down, Treasuries up, Crude up, Dollar flat.
- **REAR VIEW**: Fears on Iran response drive risk off; Higher US IJC; Challenger Layoffs highest since Jan 2023; Goolsbee and Kashkari warn of no rate cut scenario; EZ PMI higher; ECB meeting mins lay groundwork for June rate cut; LW tanks after earnings.
- **COMING UP**: **Events**: US NFP, Canadian Jobs, Japanese Household Spending, Australian Imports/Exports, German Industrial Orders, EZ/UK Construction PMIs, EZ Retail Sales **Speakers**: Fed's Musalem, Collins, Barkin, Bowman, Logan.

MARKET WRAP

Stocks saw heavy selling in late US trade Thursday as part of a broader haven influx amid uncertainty over an Iran response. Oil, gold, USTs, the Dollar, Franc, and Yen all saw a bid as stocks tumbled despite an obvious piece of newsflow to explain the move, although desks point to various signs of unease reported over the past day or so such as embassies being put on high alert and unconfirmed reports that the CIA had warned of an imminent attack on Israel. Note that defence contractors were an outperforming sector amid the broader stock sell off. Until then, broader indices had been firmer in what had been a recovery attempt of the April-to-date selling. In data, jobless claims rose to 221k, a bit above expectations and the highest since late Jan, albeit still low in the broader scheme of things, while Challenger layoffs rose to the highest since January 2023. Fed Speak lent on the hawkish side with Goolsbee and Kashkari both warning that there may be no cuts this year if inflation progress stalls, while Barkin warned of differing views amongst officials. Attention is now on Friday's NFP with sell-side estimates skewing higher after the ADP beat Wednesday, albeit it appears to be a consensus now that a hot print won't derail Fed easing plans, although that will be tested if AHE sees a meaningful spike. The latest geopolitical concerns will also muddy the picture for traders, although it is worth noting that Gold has struggled to hold on to its gains.

US

JOBLESS CLAIMS: Initial Jobless Claims rose to 221k in the latest week, above the 214k forecast and rising from the prior 212k to the highest level since the end of January. The 221k print was also above the top end of the analyst forecast range of 220k. The 4wk moving average moved higher to 214.25k from 211.5k. The unadjusted data saw claims total 196k, +2.5k from the prior week; seasonal factors had expected a decrease of 5.3k. The continued claims data for the week before, however, fell to 1.791mln from 1.81mln, with the 4wk average seeing very little change. Although Initial Jobless Claims rose, analysts at Oxford Economics highlight it is still comfortably below a level that would signal a significant weakening in labour market conditions. It is worth noting that the market is likely to be more susceptible to dovish labour market prints as opposed to hawkish prints given Fed Chair Powell has stressed the Fed would need to act if there was an unexpected weakening in the labour market, but also said a strong labour market is not a reason to delay rate cuts. Nonetheless, this data alone does not signal an unexpected weakening, with the rise in claims suggesting a slowdown of the labour market but many are expecting claims to rise throughout the year despite a resilient labour market so far in the face of Fed tightening.

CHALLENGER LAYOFFS: Challenger Layoffs rose for the third consecutive month to 90.3k, the highest level since January 2023, and 8% above the 84.6k layoffs reported in February 2024. On the data, Andy Challenger of Challenger, Gray & Christmas says that “Layoffs certainly ticked up to round out the first quarter, though below last year’s levels. Many companies appear to be reverting to a ‘do more with less’ approach. While Technology continues to lead all industries so far this year, several industries, including Energy and Industrial Manufacturing, are cutting more jobs this year than last”. The report found the primary reason for job cuts was cost cutting, followed by restructuring, as well as store closures and market conditions, and a handful due to bankruptcy. For hiring plans, US employers announced plans to add 36.8k positions in Q1, a 48% decrease Y/Y and the lowest number of announced hiring plans since 2016.

BARKIN (2024 voter) leant somewhat hawkish, noting it is smart for the Fed to take their time on rate cuts, noting the early 2024 data is less encouraging, and it raises the question of whether the outlook is shifting. He acknowledged he is still looking for a slowdown in reported inflation to sustain and broaden. Barkin added that Fed officials are all looking at the same data, but it is easy to draw different conclusions. Optimists could still forecast a soft landing ahead given economic strength, while pessimists could note signs of weakening demand or evidence of persistent inflation. Barkin is optimistic that keeping rates "somewhat restrictive" can return inflation to target.

KASHKARI (2025 voter) said he put down two rate cuts this year in his March SEP (vs Fed median three) but he also warned that it is possible the Fed will not cut this year if inflation stalls. The non-voter said he needs to see some more inflation progress before cuts can be made.

MESTER (2024 voter) echoed her remarks from Tuesday, saying she thinks the Fed will be able to lower the FFR later this year (said on Tuesday she is in line with the Fed median three cuts).

GOOLSBEE (2025 voter) struck a surprisingly hawkish tone as he said in March he jotted down two rate cuts this year, but if inflation continues to move sideways, it makes him wonder if they should cut rates at all this year. The Chicago Fed President said housing inflation has to come down and still think it will, and if it doesn't that is a threat to the Fed's 2% target. Further on policy, Goolsbee said if the Fed stays restrictive for too long, they will likely see employment begin to deteriorate.

NFP PREVIEW: The rate of payroll growth is expected to cool in March, below recent averages. Labour market proxies have been mixed in the month; ADP surprised to the upside, there was a small tick higher in initial jobless claims and continuing claims; business surveys registered improvement in employment conditions in March, although still ultimately remain in contraction; JOLTs data was inline with expectations, and show a still healthy labour market. It would take an unexpected deterioration in the labour market for the Fed to consider rate cuts sooner, Chair Powell recently said – that is not a scenario that he currently sees; on the other side, Powell also suggested that hotter than expected jobs growth was not necessarily something that could stoke inflation, given the growth in labour supply. To see the full Newsquawk preview, please click here.

FIXED INCOME

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

Treasuries rallied Thursday as initial steepener unwinds were followed by haven demand on Iran uncertainty. 2s -4.2bps at 4.637%, 3s -5.1bps at 4.447%, 5s -5.3bps at 4.285%, 7s -5.6bps at 4.299%, 10s -5.4bps at 4.301%, 20s -4.7 bps at 4.568%, 30s -4.5bps at 4.464%.

INFLATION BREAKEVENS: 5yr BEI -0.1bps at 2.395%, 10yr BEI -0.2bps at 2.357%, 30yr BEI -0.5bps at 2.304%.

THE DAY: After recovering through the US session on Wednesday, Treasuries began drifting lower again during APAC trade on Thursday. JGBs weakened even though the 30yr auction went well. T-Notes were supported at 109-22 during the European morning with soft Swiss CPI offset by strong EZ Services PMI. Spain saw very strong demand at its auctions although France saw more mixed demand.

Better selling kicked in heading into the NY handover. T-Notes hit session lows of 109-20 right after the jobless claims figures, which were above expectations but still a low 221k. However, a strong bid, led by the back end, kicked in soon after, in what appeared to be steepener unwinds ahead of Friday's payrolls after the strong bear-steepening seen earlier this week. T-Notes reversed to interim peaks of 110-01 in the NY morning before fading into the afternoon. There was no reaction to the hawkish comments from Fed's Goolsbee and Kashkari, where the latter warned of potentially no cuts if inflation stalls. However, there was a late session bid as part of broader haven demand on Iran response uncertainty that saw T-Notes run on to new session peaks of 110-04+ right before settlement.

Attention is now on Friday's NFP with sell-side estimates skewing higher after the ADP beat Wednesday, albeit it appears to be a consensus now that a hot print won't derail Fed easing plans, although that will be tested if AHE sees a meaningful spike. Participants are also looking to next week's 3s, 10s, 30s supply on Tues, Weds, and Thurs, respectively, not to mention the critical March CPI print on Weds and PPI Thurs.

STIRS:

- SR3M4 +4bps at 94.89, U4 +4.5bps at 95.145, Z4 +4.5bps at 95.425, H5 +4bps at 95.675, M5 +3bps at 95.88, U5 +3bps at 96.045, Z5 +3bps at 96.155, H6 +3bps at 96.22, M6 +3bps at 96.255, M7 +3bps at 96.295, M8 +3.5bps at 96.24.
- SOFR falls to 5.32% from 5.34%, volumes rise to USD 1.985tln from 1.927tln.
- NY Fed RRP op demand at USD 0.439tln (prev. 0.437tln) across 66 counterparties (prev. 65).
- EFFR flat at 5.33%, volumes fall to USD 93bln from 94bln.

- US sold USD 70bln of 1-month bills at 5.265%, covered 3.13x; sold USD 75bln of 2-month bills at 5.260%, covered 2.87x.
- US leaves 13-week and 26-week bill sizes unchanged at USD 70bln and 70bln, respectively, but cuts 6-week bills by USD 5bln to 65bln; 13- and 26-week sold on April 8th and 6-week on April 9th; all to settle on April 11th.

CRUDE

WTI (K4) SETTLED USD 1.16 HIGHER AT 86.59/BBL; BRENT (M4) SETTLED USD 1.30 HIGHER AT 90.65/BBL

Oil prices were initially subdued on Thursday, with the strong rally losing some momentum in a catalyst-lite session until late Israel/Iran news led a bid into the settlement. WTI (K4) and Brent (M4) futures sold gradually to session lows of USD 84.64/bbl and 88.78/bbl in the US session, before ripping into settlement. That rip came amid some reports in Daily Express US that CIA has warned that Iran will attack Israel within 48 hours as revenge for the consulate strike, although it's worth noting the reports were first floated on Wednesday but got some traction again on Thursday. We are looking for more clarity around the issue. Otherwise, it was a very quiet day from an energy newsflow perspective, with no other price catalysts.

EQUITIES

CLOSES: SPX -1.23% at 5,147, NDX -1.55% at 17,878, DJIA -1.35% at 38,596, RUT -1.08% at 2,053.

SECTORS: Technology -1.72%, Health -1.4%, Communication Services -1.39%, Financials -1.17%, Consumer Discretionary -1.16%, Materials -1.01%, Industrials -0.86%, Real Estate -0.77%, Consumer Staples -0.48%, Utilities -0.2%, Energy -0.06%.

EUROPEAN CLOSES: DAX: +0.16% at 18,404, FTSE 100: +0.48% at 7,976, CAC 40: -0.02% at 8,152, Euro Stoxx 50: -0.02% at 5,071, IBEX 35: +0.53% at 11,091, FTSE MIB: -0.02% at 34,475, SMI: +0.61% at 11,688.

STOCK SPECIFICS:

- **Alphabet (GOOG)** -3%: Google mulls adding "premium" features to its search engine using generative AI and charging for the service, FT reports.
- **HubSpot (HUBS)** +5%: **Alphabet (GOOG)** is in talks with advisers about a potential offer for HubSpot, according to Reuters sources.
- **Levi's (LEVI)** +12.5%: EPS and revenue surpassed Wall St. expectations alongside raising FY EPS outlook.
- **Etsy (ETSY)** +0.5%: Positive mention at the Sohn Conference; Elliott Investment Management said there is the potential for multi-year upside in Etsy's share price.
- **Conagra Brands (CAG)** +5.5: Profit beat and raised FY24 adj. operating margin guidance.
- **Bumble (BMBL)** -3.5%: Downgraded at Raymond James on near-term headwinds.
- **Block (SQ)** -6%: Downgraded at Morgan Stanley citing "high market penetration and limited additional opportunity".
- **Lamb Weston (LW)** -19.5%: Top and bottom line missed accompanied by weak FY guidance.
- **Tesla (TSLA)** +1.5%: Started producing right-hand drive cars in Germany for exports to India, according to Reuters sources.
- **Paramount (PARA)** -8.5%: Ellison-led bid would require Paramount to raise new equity, according to CNBC citing sources.
- **Boeing (BA), Spirit AeroSystems (SPR)**: BA and Airbus (EADSY) are reportedly exploring a framework deal to divide operations of SPR, according to Reuters citing sources.

US FX WRAP

The Dollar was eventually flat on Thursday as it pared losses on rising geopolitical tensions amid uncertainty around Iran response to Israel. As such, there was a broad-based risk off sentiment in the last hour of trade highlighted by a bid in oil, followed by spot gold, while stocks sold off. Prior to this, continuing on Wednesday's ISM-induced sell off, as it was hit on initial jobless claims rising to 221k (prev. 212k), above the expected 214k and outside the upper bound of the forecast range. Ahead of NFP on Friday, Challenger Layoffs rose for the third consecutive month to 90.3k, the highest level since January 2023. After the US data, Atlanta Fed Q1 GDPNow index was revised lower to 2.5% from 2.8%. On the Fed docket, it leant on the hawkish side - Goolsbee (2025 voter, dove) said in March he jotted down two rate cuts this year, while Barkin noted it is smart to take time on rate cuts. Kashkari (2025 voter) even said there may be no rate cuts if inflation progress stalls.

Antipodeans are the G10 gainers. AUD outperforms its NZD counterpart, with the former buoyed by the surge in copper prices. Note, during APAC trade, Australian building approvals data were dismal as they fell 1.9% in February, vs. the prior, revised lower, -2.5% and the expected 3.3%. AUD/USD topped its 100 DMA at 0.6601 to reach a high of 0.6617, with NZD/USD seeing a peak of 0.6046, against a low of 0.6006.

CHF was the G10 laggard for the majority of the session as it saw weakness on Swiss CPI as Y/Y unexpectedly cooled to 1.0% from 1.2%, against the expected 1.3%. However, after the previously mentioned geopols tensions which sparked risk off sentiment, the Swissy pared all its weakness against the Buck to trade at its strongest levels on the day, at pixel time.

JPY ended up seeing gains vs. the Greenback after it saw strength late in the session on the aforementioned heightening geopolitical tensions. Highlighting this, USD/JPY traded between 151.13-76 and currently sits at the bottom of the range. Nonetheless, late in the session BoJ Governor Ueda was on the wires via Asahi with a piece titled BoJ might mull rate hike from summer to autumn, but there was no reaction in the currency to the comments.

EUR, **GBP**, and **CAD** were all more-or-less flat against the Buck. For the single-currency, EZ PMIs were revised higher while ECB Minutes added little new (Newsquawk review available here). Regarding the Pound, light March PMIs and the BoE Decision Maker Panel did little to sway action.

Scandis was slightly divergent. Currency-specific newsflow was light, although within the Riksbank Minutes there was no overt mention of preference between May or June for a rate cut among the members.

EMFX was predominantly lower, although CLP firmed amid support from rising copper prices. In terms of currency specific newsflow, for the Zloty the NBP held rates at 5.75%, as expected, while Banxico minutes added little of note as most board members highlighted the progress in disinflation in Mexico. Lastly, and for Brazil, the departure of Petrobras CEO is reportedly imminent.