# US Market Wrap

## 10th April 2024: Hot CPI takes a June Fed cut off the table

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Hot headline and core CPI; BoC holds, dovish language tweak; Iran attack on Israel is due in "coming days"; Woeful 10yr auction; DAL earnings beat.
- **COMING UP**: **Data**: Chinese CPI, US IJC, PPI **Events**: ECB Policy Announcement **Speakers**: Fed's Williams, Collins, Bostic, Barkin **Supply**: Italy & US **Earnings**: Constellation Brands.

## MARKET WRAP

The above-forecast March CPI figures shattered expectations for Fed rate cuts in the months ahead, sending stocks and bonds lower as the Dollar ripped. Fed pricing now sees 42bps of cuts across 2024 vs 68bps before the CPI data, with the first fully priced rate cut moving back to November from July. All the major indices were lower, but the greatest losses were in the most rate-sensitive sectors, particularly small caps (Russell 2k). The lows for the indices were in right after the data, however, bonds dipped further into the afternoon, accentuated by an awful USD 39bln 10yr auction from the Treasury; the cash 10yr yield peaked at 4.57%, with yields seeing their largest one-day increase since late 2022. Oil prices bounced back on Wednesday with afternoon Bloomberg reports that an Iran attack response to Israel was imminent led to a rally that offset the initial downside amid the Dollar's rip post-CPI and bearish EIA inventory figures. Gold, meanwhile, closed lower. CAD was hit by the surging Dollar and the dovish BoC, which left rates unchanged but made some dovish tweaks to the statement. Yen is in focus after USD/JPY hit a multi-decade high of 152.98 with attention now on any potential jawboning or more. Euro also saw big losses into Thursday's ECB which is expected to be a dovish hold as the bank lays the groundwork for a June cut.

## GLOBAL

**US CPI**: US CPI came in hotter than expected across headline and core measures in March. The headline rose 0.4% M/M (exp. +0.3%; prev. +0.4%) and the annual rate rose to 3.5% Y/Y from 3.2% (exp. 3.4%). Crucially, Core CPI rose 0.4% M/M (0.359% to 3dp), above the consensus 0.3% and the same pace as the prior 0.4%, with the Core measure remaining unchanged at 3.8% Y/Y (exp. +3.7%), and broad-based gains across the core basket. The hot core figures have shattered expectations for a June Fed cut, which were predicated on a return to the lower trend seen at the back end of last year. Looking within, motor vehicle insurance prices were a big upward contributor, rising 2.6% M/M and 22.2% Y/Y; Oxford Economics highlights it is adding 0.7ppts to annual core CPI inflation, despite making up less than 4% of the core basket. Apparel prices and medical care commodity prices both saw upside, although a drop in new- and used-vehicle prices capped the upside in core goods, but OxEco warns that the downside from this group may fade. Core services rose just as much as February, where the CPI for rent of a primary residence increased 0.4% M/M in March following a 0.5% gain in February. Owners' equivalent rent (OER) was up 0.4% M/M for the second consecutive month. Oxford Economics said, "a tenth of a percentage point here and there on monthly OER inflation matters, given that it singlehandedly accounts for a third of the core CPI." Meanwhile, the Fed-watched super-core measure rose to 4.8% Y/Y in March from 4.3% in February; Apollo's Torsten Slok warns, "the 3-month annualised change in super-core inflation is now over 8% and accelerating… The 6-month annualized change is 6%… We are sticking to our view that the Fed will not cut rates in 2024."

**BOC**: The BoC left rates unchanged as expected at 5.00% but it did not give an explicit signal of future rate cuts, although it did make a dovish tweak to its language. The BoC removed a line in the statement that the council is still concerned about risks to the outlook for inflation. It added that while inflation is still too high and risks remain, CPI and core inflation have eased further in recent months, and they will be looking for evidence this momentum is sustained, particularly watching core inflation. Reminder, the BoC's preferred measure of core inflation still sits just above the 1-3% target band. The MPR saw Q1 CPI revised lower into the top end of its target range at 2.8% although Q2 CPI is seen at 2.9%. Growth projections saw upward revisions in Q1 Q/Q to 2.8% from 0.5%, before easing to 1.5% in Q2. It revised its estimate range of the output gap to -0.5% to -1.5% from -0.25% to -1.25%. In the longer run, it revised its neutral rate estimate range to 2.25-3.25% from 2.00-3.00%, in fitting with the narrative that the neutral rate is rising, similar to the SEPs from the Fed. Governor Macklem echoed the BoC guidance that as they consider how much longer to hold the policy rate at the current level, they are looking for evidence that the recent further easing in underlying inflation will be sustained. On specifics, Macklem acknowledged that shelter cost inflation is still very high and remains the biggest contribution to overall inflation. Some other services, like restaurant meals, also remain persistently high. On a June rate cut, Macklem did suggest a June cut is possible, but noted the decline they have seen in momentum is very recent. He also said the BoC did discuss when to reduce the rate, and there was a clear consensus to hold today, but there is some diversity of views in the governing council as to when they are going to see what they are looking for.

**FOMC MINUTES**: Overall, the minutes were quite stale given the hot inflation data released earlier in the session (information not available at the time of the Fed meeting), which has drastically shifted Fed expectations as it cemented perhaps the earlier data was not just a bump in the road. Nonetheless, the minutes did reveal some information on the balance sheet, albeit what is consistent with Fed Speak on the issue. The vast majority judged it would be prudent to begin slowing the pace of the balance sheet runoff "fairly soon", but a few preferred to continue at the current pace until indicators showed reserves were nearing an ample level. Participants generally favoured reducing the monthly runoff pace by roughly half from the recent overall pace, while participants saw little need to slow mortgage-backed securities runoff, preferring to adjust the cap on Treasuries redemptions. On the economic outlook, some had noted concern that financial conditions might not be as restrictive as desired. For a full summary, please click here.

**ECB PREVIEW**: Analysts are unanimous in expecting the ECB to stand pat on the deposit rate at 4.0% with markets assigning a circa 92% likelihood of such an outcome. Policymakers continue to guide participants towards a June reduction with even the likes of arch-hawk Holzmann falling into line with such an outcome. With the April decision itself seemingly a given, focus will naturally fall on any tweaks to the policy statement and any hints over forthcoming action. In terms of market pricing beyond April, June is fully priced for a 25bps reduction with a total of 83bps of loosening seen by year-end. For the full Newsquawk Preview, please click here.

## FIXED INCOME

### T-NOTE (M4) FUTURES SETTLE 1 POINT & 14 TICKS LOWER AT 108-06+

**Treasuries see their biggest one-day sell-off since late 2022 after hot CPI shatters June rate cut expectations followed by an awful 10yr auction**. 2s +22.0bps at 4.967%, 3s +25.0bps at 4.800%, 5s +23.3bps at 4.610%, 7s +21.5bps at 4.593%, 10s +19.0bps at 4.556%, 20s +15.9bps at 4.759%, 30s +13.4bps at 4.633%.

**INFLATION BREAKEVENS**: 5yr BEI +5.1bps at 2.475%, 10yr BEI +4.4bps at 2.422%, 30yr BEI +2.7bps at 2.346%.

**THE DAY**: After Tuesday's rally, T-Notes hovered sideways through APAC trade on Wednesday with the 109-23 Tuesday peak serving as resistance, with 109-19+ marking the lows, maintaining a tight range ahead of US CPI. The highlight in APAC was the RBNZ, which kept rates unchanged and also maintained its hawkish language to little wider reaction. JGBs saw some follow-on selling after the Bloomberg sources report on Tuesday ahead of the 20yr JGB auction on Thursday. Treasuries remained range-bound through the European morning too. The data highlight was Norwegian inflation coming in on the soft side, while in supply, the UK had a solid short end Gilt auction while Germany saw tepid demand at a long end auction.

At the NY handover, contracts broke out to the upside, with T-Notes going on to print session peaks of 109-26+ ahead of the CPI data. That proved a head-fake. On release of the hot CPI figures, T-Notes tumbled from 109-22 to 108-28+ in an immediate reaction, before extending lower. There was no major recovery attempt through into the afternoon. The 10yr auction saw an awful demand reception, seeing T-Notes break to session lows of 108-05+, further downside from there was capped after the headlines that an Iran response to Israel was imminent in the coming days. The FOMC minutes saw no reaction in USTs.

**10YR AUCTION**: An awful 10yr reopening from the Treasury, with USD 39bln sold at 4.560%, where despite offering the highest yield since November last year, still marked a tail of 3.1bps, which is the third largest tail on record, way above the prior 0.9bp tail and six-auction avg. 0.7bps tail. 10yr yields were already up over 15bps on the session before the auction, coming on the heels of the CPI release, but clearly, that was not enough to see buyers step in. Looking within, the auction was covered 2.34x, beneath the prior 2.51x and avg. 2.52x. Dealers (forced surplus buyers) were left with a massive 24% (avg. 16.1%), with a step down M/M in participation in Directs to 14.2% from 18.6% and Indirects to 61.8% from 64.3%. The auction results do not bode well for Thursday's 30yr auction, albeit, maybe the PPI, Fed minutes, or Fed Speak can restore some calm before then.

**STIRS**:

- Fed pricing now sees 42bps of cuts across 2024 vs 68bps before the CPI data, with the first fully priced rate cut moving back to November from July.
- SR3M4 -11.5bps at 94.72, U4 -20.5bps at 94.87, Z4 -25.5bps at 95.075, H5 -28.5bps at 95.27, M5 -29.5bps at 95.45, U5 -29bps at 95.605, Z5 -29.0bps at 95.715, H6 -28bps at 95.80, M6 -27.5bps at 95.86, M7 -21bps at 96.02, M8 -16bps at 96.035.

- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.826tln (prev. 1.807tln).
- NY Fed RRP op demand at USD 0.446tln (prev. 0.442tln) across 67 counterparties (prev. 73).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 85bln (prev. 82bln).
- US sold USD 60bln of 17-week bills at 5.230%, covered 3.12x.

## CRUDE

**WTI (K4) SETTLES USD 0.98 HIGHER AT 86.21/BBL; BRENT (M4) SETTLES USD 1.06 LOWER AT 90.48/BBL**

**Oil prices bounced back on Wednesday with Iran attack response fears offsetting the Dollar rip post-CPI**. Oil futures had seen losses during the NY morning, with stocks offered and the Dollar bouncing post-CPI, seeing WTI (K4) and Brent (M4) trough for the session at USD 84.55/bbl and 88.83/bbl. The EIA inventory data also kept the pressure on, with crude stocks building a chunky 5.8mln bbls and a net 2.4mln bbl build in the products. However, later on in the afternoon, Bloomberg source reports that the US sees a missile strike on Israel by Iran and proxies as imminent ("coming days") - which echoed the CBS reports last Friday - saw the geopolitical risk premia ramp up, seeing WTI and Brent futures reverse losses and settle at session peaks. Oil prices, like many other commodities, remain in their uptrend.

## EQUITIES

**CLOSES**: SPX -0.95% at 5,161, NDX -0.87% at 18,012, DJIA -1.09% at 38,462, RUT -2.78% at 2,023.

**SECTORS**: Energy +0.38%, Communication Svs -0.22%, Cons Stpl +0.34%, Technology -0.74%, Industrials -0.84%, Health -1.15%, Cons Disc -1.19%, Financials -1.5%, Materials -1.55%, Utilities -1.73%, Real Estate -4.1%.

**EUROPEAN CLOSES**: DAX: +0.11% at 18,096, FTSE 100: +0.33% at 7,961, CAC 40: -0.05% at 8,045, Euro Stoxx 50: +0.17% at 4,999, IBEX 35: -0.38% at 10,775, FTSE MIB: +0.27% at 34,040, SMI: -0.14% at 11,490.

**STOCK SPECIFICS**:

- **Apple (AAPL)** increased iPhone production in India to USD 14bln last fiscal year, doubling output as it aims to reduce dependence on China.
- FAA is probing claims by a **Boeing (BA)** whistleblower about safety and quality issues in 787 and 777 jet production.
- **TSMC (TSM)** posts fastest monthly revenue growth since 2022 amid AI boom.
- Following reports on Tuesday, **Blizzard (MSFT) and NetEase (NTES)** have confirmed that they have renewed a publishing agreement.
- **Delta Air Lines (DAL)** EPS and revenue beat, with next quarter profit view better than expected.
- **Roblox (RBLX)** ramps up push to attract advertisers to platform, according to WSJ; Hires ad-tech firm **PubMatic (PUBM)** to boost sales of video ads.
- **Albemarle (ALB)** was upgraded at BofA citing lithium pricing having bottomed.
- **Alibaba (BABA)** co-founder Jack Ma wrote a lengthy post to employees that expresses support for the Cos. restructuring efforts.
- **Meta Platforms (META)** debuts new AI chip, aims to decrease reliance on **Nvidia (NVDA)**.
- **Electronic Arts (EA)** is raising the price for its EA Play subscription service, according to GamesIndustry.biz.

## US FX WRAP

**The Dollar** surged on Wednesday in wake of the hotter-than-expected US CPI report. All major metrics were firmer than expected which sparked a notable broad based hawkish reaction. Money markets are now pricing in just 40bps of rate cuts by year-end, vs. the 68bps of cuts priced pre-data, with the first 25bp rate cut not fully priced until November. As a result, the Dollar index hit a fresh YTD peak of 105.30 with the push to highs seen in wake of the dismal 10yr T-note auction. Elsewhere, in wake of the inflation report we had Fed speak from Barkin who still said a lot of progress is being made on inflation, despite today's report. Lastly on the Fed footing, FOMC Minutes revealed some more information on the balance sheet, suggesting it would be prudent to start slowing the balance sheet run off fairly soon and they generally favoured reducing the monthly run off pace by roughly half from the recent pace. Otherwise, the minutes were stale given the fresh data today. Looking ahead, participants await PPI, jobless claims, and a slew of Fed speak on Thursday, with the highlight being Vice-Chair Williams.

**G10** currencies saw broad based weakness against the Dollar, on account of the aforementioned US inflation report. Antipodeans were the underperformers, with the AUD lagging the NZD, with the Kiwi seeing some strength overnight on account of the hawkish RBNZ hold (Newsquawk review available here), keeping pressure on AUD/NZD. AUD/USD and NZD/USD hit a low of 0.6499 and 0.5967, respectively.

**USD/JPY** hit a multi-decade high of 152.98 with firm focus overnight on any potential jawboning. The USD/JPY peak was seen in wake of the 10yr auction but it moved off highs as the Yen it caught a haven bid on Bloomberg reports that an Iran attack on Israel is imminent.

**EUR/USD** hit a trough of 1.0730 from a 1.0866 peak ahead of ECB on Thursday (Newsquawk preview available here).

**CAD** was hit by the surging Dollar while a dovish BoC hold only added to CAD weakness. Briefly recapping, rates were left unchanged, as expected, while the GC noted inflation is still too high, but has eased in recent months. In the statement, it removed language from the previous statement that "The Council is still concerned about risks to the outlook". The MPR was mixed, but looking the BoC's quarterly projections see Q1 24 CPI Y/Y at 2.8% (prev. 3.2%), but with Q2 accelerating to 2.9%, albeit both within their inflation target range of 1-3%. Although a June rate cut was not explicitly signalled, the dovish tweak to language and Macklem stating a June cut is possible, keeps the door open for one.

**Scandis** were lower, with the NOK already pressured in the EU morning on a cooler-than-expected inflation print.

**EMFX**, without trying to sound like a broken record, were exclusively weaker against the Greenback after US CPI. Nonetheless, Fitch revised China’s outlook to Negative reflects increasing risks to China's public finance outlook. Brazilian IPCA inflation data was cooler-than-forecast on both M/M and Y/Y. Looking ahead, Chinese inflation metrics are due overnight.