US Market Wrap

11th April 2024: Stocks bid after PPI eases inflationary fears ahead of earnings

- **SNAPSHOT**: Equities up, Treasuries steepen, Crude down, Dollar flat.
- **REAR VIEW**: Mixed PPI, but not as hot as CPI; ECB keep door open to June cut; HSBC still see Fed cut in June; Fed's Williams gives little notice to hot CPI; Collins says data argues against imminent need to change rats; Barkin says Fed not there yet on inflation; AAPL to revamp Mac line focused with AI chips; MS faces regulatory probe; Soft 30yr auction
- **COMING UP**: **Data**: Chinese Trade Balance, UK GDP, Swedish CPIF, US Uni. of Michigan (Prelim.) **Event**: BoE Forecast Review **Speakers**: ECB's Elderson; Fed’s Collins, Schmid, Bostic & Daly **Earnings**: Blackrock, Wells Fargo, JPM, Citi.

MARKET WRAP

Stocks rallied on Thursday with Big Tech/NDX leading the charge as participants gear up for earnings. A dovish ECB, soft PPI, and dismissive Fed Speak (of CPI) saw the front end of the Treasury pare some recent losses, although the back end continued to trade lower, with a lacklustre 30yr auction - albeit not as bad as Wednesday's 10yr - keeping duration offered. It was noteworthy that stocks accelerated their gains once the auction was in the rearview, in a seeming "relief rally". Apple (AAPL) accelerated gains on Bloomberg reports about its new M4 chip products being in the works, while Nvidia (NVDA) also saw massive gains on no fresh catalysts. There appears to be an appetite to get long stocks for this earnings seasons, where analysts flag the bar for beats is relatively low. Big banks kick things off on Friday. In commodities, oil trundled lower, with concerns around an Iran response somewhat softened by reports that any attack would be "controlled and non-escalatory". However, that didn't stop Gold, with the yellow metal going on to print new record highs above USD 2,375 at time of writing, perhaps benefitting from the Fed Speak, where Williams, an influential voter, indicated little change in his outlook that cuts will "eventually" be needed despite inflation bumps. In FX, the DXY was ultimately flat, with activity currencies outperforming, while the Euro was flat to slightly lower despite Lagarde's mentioning there were some calls for a cut at today's meeting.

CENTRAL BANKS

ECB REVIEW: As expected, the ECB opted to stand pat on rates once again. The policy statement reaffirmed guidance that rates will be kept sufficiently restrictive for sufficiently long. Furthermore, policymakers will continue to follow a data-dependent and meeting-by-meeting approach and will not pre-commit to a particular rate path. That being said, and what was a new inclusion for the statement, it was noted that if the Governing Council was to gain further confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction. The ECB stopped short of explicitly mentioning June given previous errors in pre-announcing policy, however, the updated guidance was perceived as a green light to expect a cut at the next meeting. In the follow-up press conference, when questioned about a potential rate cut in June, Lagarde reiterated that the ECB will have a lot more data by the time of the June meeting. In terms of the unanimity of today's announcement, Lagarde stated that "a few" dissenters felt "sufficiently confident" about altering policy at the meeting, however, they ultimately rallied around the consensus. This could potentially be in-fitting with source reporting in the wake of the previous meeting which suggested some policymakers floated the idea of a second cut in July to win over a small group still pushing for an April start. Elsewhere, given yesterday's US CPI report and subsequent Fed repricing, Lagarde was questioned what impact this could have on the ECB's easing plans, to which Lagarde stressed the ECB's independence on policymaking. Overall, with Lagarde getting a relatively easy ride in the press conference, the policy statement gave the greatest clues as to what comes next and reaffirmed market views heading into the release. Market pricing for a June reduction is near-enough pre-announcement levels of circa 68% with a total of circa 3 cuts seen by year-end. Later on, ECB sources, via Reuters, said policymakers still expect to cut rates in June but some think the case for pausing at their following meeting is becoming stronger given a continued rebound in US inflation, energy and geopolitics. The sources added doves are looking for cuts in June and July amid benign labour market. On July, said while the July decision was not explicitly debated, some policymakers argued that a delayed start to the Fed's own cutting cycle warranted caution from the ECB.

FED'S WILLIAMS (voter), talking to reporters after a speech, said there is no need to change monetary policy "in very near term", saying rate hikes are not part of his forecast but "eventually", the Fed will need to cut rates. Williams said policy is currently in a "good place". Williams was dismissive of the hot CPI, saying recent inflation setbacks are not a surprise to the Fed, but that shelter inflation has been slower to come down than expected. In his prepared speech, Williams said he sees inflation between 2.25-2.50% this year, up from his Feb 28th forecast of 2.0-2.25%, which is beneath the Fed median of 2.4% in headline PCE. He said there would be "bumps" along the way. Williams expects 2% GDP this year and the unemployment rate moving up to 4% before ebbing again next year.

FED'S BARKIN (2024 voter, hawkish) said the latest inflation data did not increase confidence that disinflation is spreading within the economy, noting data looks as it did at the end of 2023; goods prices falling, shelter moving sideways and services increasing. Said the Fed is not yet where it wants to be on inflation, but they are heading in the correct direction on a longer time frame. Barkin suggested it is smart for the Fed to take its time and see if inflation slows, adding the inflation data raises the question of whether the Fed is seeing a shift.

FED'S COLLINS (2025 voter, neutral) said that recent data argues against an imminent need to change rates although she still expects rate cuts this year but a strong job market reduces the urgency to cut rates. Collins noted the economic strength may augur fewer rate cuts, noting it may take more time for the economy to moderate as needed and that the strength of the economy may mean Fed policy is not as restrictive as thought. She added that the disinflation process is likely to continue to be uneven, although the recent inflation data has not changed her view about the outlook. Collins noted it may take longer to get inflation back to 2%, but the economy is resilient in the face of Fed policy.

US DATA

US PPI: The PPI data overall was cooler than expected with the headline Y/Y rising 2.1% (exp. 2.2%) but accelerating from the 1.6% prior, with the M/M rising 0.2%, beneath the 0.3% forecast but down from the 0.6% in February. Core PPI however was above forecast Y/Y at 2.4% (exp. 2.3%), while the M/M was in line at 0.2%. The super core, ex-food, energy and trade, matched the prior pace Y/Y while M/M eased to 0.2% from 0.4%. The data was a sigh of relief after the fiery CPI report on Wednesday, while analysts are now starting to compile their PCE forecasts based on the now available data. Core PCE, the Fed's preferred gauge of inflation, is currently expected to come in between 0.2-0.3% M/M in March, vs the 0.3% in February - perhaps something not too worrisome despite the initial post-CPI fears. Nonetheless, it is clear that inflation progress is slowing, putting the onus on the Fed to push back rate cuts, as money markets have already done.

US JOBLESS CLAIMS: Initial jobless claims (w/e 6th April) fell to 211k from 222k and shy of the forecasted 215k, leaving the 4-wk average more-or-less unchanged at 214.25k (prev. 214.5k). Continued claims (w/e 30th March) rose to 1.817mln (prev. 1.789mln) above the forecasted 1.8mln. Note, the seasonal factors had expected an increase of 27,749 (14.1%) from the previous week. As Oxford Economics points out, “Even though hiring growth is slowing, net payroll growth remains strong thanks to the low level of layoffs in the economy, and there is no sign from the claims data that the story is changing.”

FIXED INCOME

T-NOTE (M4) FUTURES SETTLE 3 TICKS LOWER AT 108-03+

Treasuries twist steeper amid soft-sided PPI, dovish ECB, relaxed Fed Speak and lacklustre 30yr auction. 2s -2.9 bps at 4.940%, 3s -2.3bps at 4.780%, 5s -0.3bps at 4.610%, 7s +0.7bps at 4.604%, 10s +1.0bps at 4.570%, 20s +1. 9bps at 4.781%, 30s +2.3bps at 4.657%.

INFLATION BREAKEVENS: 5yr BEI -1.6bps at 2.456%, 10yr BEI -0.1bps at 2.414%, 30yr BEI +0.1bps at 2.345%.

THE DAY: After Wednesday's record sell off, Treasuries hovered sideways near lows through APAC trade, with a poor 10yr JGB auction keeping the pressure on. Gradual downside in the European morning saw T-Notes breach through the 108-05+ lows from Wednesday. There was little reaction to the ECB statement release - rates left unchanged with some modest dovish tweaks to the guidance - and contracts kept dipping into the US PPI data.

In a kneejerk reaction to the in line core M/M but soft headline PPI, T-Notes hit session lows of 107-27+ before swiftly reversing higher. Fed's Williams (v) speech, which took little notice/caution to the March CPI figures, emboldened the front-end-led bid, and in his post-speech commentary, he acknowledged that recent inflation had been disappointing but that it's better to focus on the trend inflation, saying policy is well positioned. ECB's Lagarde also said just after then that there were some officials who were looking for a cut at today's meeting, with T-Notes going on to print peaks of 108-16+ not long after, breaching past the APAC peak of 108-13+. T-Notes remained rangebound from there on into settlement. The 30yr auction (details below), which was poor but not near as poor as the 10yr rally, saw little sustained reaction.

Friday sees more Fed Speak (Collins, Schmid, Bostic, Daly) and the prelim. Michigan consumer survey (any spike in inflation expectations would be very unwelcome right now). Otherwise, set up for Monday's retail sales figures after some recent red flags on the consumer in earnings reports, although economists expect a decent report with BofA (who has been a top forecaster for these numbers) pencilling in a solid +0.6% in the ex-autos group (consensus estimate sees a 0.4% gain). Note there is a slew of Fed Speak and survey data due across next week.

30YR AUCTION: A not great 30yr bond auction from the Treasury, with USD 22bln sold at 4.671%, tailing the When Issued by 1bp (prev. stop-through of 2.1bps and six-auction avg. tail of 0.8bps), but much better in the context of Wednesday's 10yr tail of 3.1bps. The auction was covered 2.37x, beneath the prior 2.47x and avg. 2.38x. Dealers were left with 17.3%, above the prior 13.9% and avg. 16.7%, with Directs taking 18.3% (prev. 16.8%) and Indirects taking 64.4% (prev. 69.3%).

STIRS:

- SR3M4 +2.5bps at 94.745, U4 +3bps at 94.90, Z4 +2bps at 95.09, H5 +1.5bps at 95.28, M5 +1.5bps at 95.46, U5 +2bps at 95.62, Z5 +2.5bps at 95.735, H6 +2bps at 95.81, M6 +1bps at 95.865, M7 -0.5bps at 96.01, M8 -1bps at 96.015.
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.909tln (prev. 1.826tln).
- NY Fed RRP op demand at USD 0.455tln (prev. 0.446tln) across 69 counterparties (prev. 67).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 86bln (prev. 85bln).
- US sold USD 70bln of 1-month bills at 5.270%, covered 2.95x; sold USD 75bln of 2-month bills at 5.270%, covered 3.14x.
- US leaves 42-day, 13-week, 26-week, and 52-week bill sizes unchanged at USD 65bln, 70bln, 70bln, and 46bln, respectively; 13- and 26-week bills sold on April 15th, 42-day and 52-week bills sold on April 16th; all to settle on April 18th.

CRUDE

WTI (K4) SETTLES USD 1.19 LOWER AT 85.02/BBL; BRENT (M4) SETTLED USD 0.74 LOWER AT 89.74/BBL

Oil prices were lower on Thursday with the stronger Dollar weighing. In terms of newsflow, the US' largest refinery, Motiva, Port Arthur (636k BPD), suffered two crude unit outages after a power outage late on Wednesday, although Reuters reported later on Thursday they had been restarted, which should, in theory, limit the amount of oil being stored in inventories that would have been seen had it been a longer outage. We also had the OPEC MOMR, which maintained its 2024 world oil demand growth forecast at 2.25mln BPD and 2025 forecast at 1.85mln BPD. On geopolitics, according to Israeli news website Ynet, Iran was planning to conduct a strike against Israel but postponed such action "at the last minute". According to the report, Tehran decided to either delay the strike or change the nature of its response, suggesting that it was likely due to warnings from the US administration. Oil prices now head into another weekend with elevated geopolitical risk, although in terms of trend, prices have failed to make new peaks this week after last Friday's apex in the benchmarks.

EQUITIES

CLOSES: SPX +0.74% at 5,199, NDX +1.65% at 18,307, DJI -0.01% at 38,459, RUT +0.70% at 2,042.

SECTORS: Technology +2.36%, Communication Services +1.14%, Consumer Discretionary +0.94%, Industrials +0. 11%, Real Estate +0.03%, Materials -0.1%, Energy -0.2%, Utilities -0.21%, Consumer Staples -0.28%, Health -0.49%, Financials -0.58%.

EUROPEAN CLOSES: DAX: -0.70% at 18,097.00, CAC 40: -0.13% at 7,977.00, FTSE 100: -0.45% at 7,907.00, Euro Stoxx 50: -0.55% at 4,886.00, FTSE MIB: -0.91% at 32,890.00, SMI: -0.14% at 11,328.50, IBEX 35: -1.14% at 10,594.00

STOCK SPECIFICS:

- **Apple (AAPL)** +4%: Plans to revamp entire Mac line with AI-focused M4 chips, according to Bloomberg; M4 Macs designed to bring AI capabilities and boost memory. First wave of M4 Macs to debut in late 2024, early 2025.Separately, it warned users of a spyware attack.
- **Amazon (AMZN)** +1.7%: Ordered to pay USD 525mln patent violation fine. Elsewhere, as they look towards 2024 (and beyond), they are not done lowering cost to serve.
- **Costco (COST)** +1.4%: Boosts quarterly dividend to USD 1.16/shr (prev. 1.02).
- **US Steel (X)** -0.9%: DoJ is probing Nippon Steel's acquisition of X amid national security concerns.

- **CarMax (KMX)** -9%: EPS and revenue missed accompanied by downbeat comms.
- **Constellation Brands (STZ)** +1.2%: Top and bottom line beat, raised quarterly dividend and FY25 EPS outlook surpassed expectations.
- **Fastenal (FAST)** -6.5%: Earnings disappointed which were affected by adverse weather.
- **Alpine Immune Sciences (ALPN)** +37%: To be acquired by **Vertex (VRTX)** for USD 4.9bln in cash or USD 65 /shr. ALPN closed Wednesday at 47.04.
- **Nike (NKE)** +3.4%: Upgraded at BofA with expectations rebased.
- **Robinhood (HOOD)** +3.6%: Downgraded at Citi.
- **Globe Life (GL)** -53%: Fuzzy Panda short on the name.
- **Ford (F)** flat: Cuts prices of electric F-150 pickup by up to USD 5,500 to boost sales.
- **Blackbaud (BLKB)** +4.2%: Clearlake said to renew pursuit of software firm Blackbaud, according Bloomberg sources.
- **Marvell (MRVL)** +0.2%: Gave an AI update at its event; Recorded over USD 550mln in AI related revenue in 2023. Looking ahead, sees AI contributing close to 30% of total revenue in 2024 and tripling to over USD 1.5bln, and sees USD 2.5bln for 2025 as a "solid base".

US FX WRAP

The Dollar was ultimately flat on Thursday after DXY found support at 105.00 (low of 105.03) in wake of the ECB and US PPI data. The PPI was on the cooler side of expectations, helping ease some of the inflationary fears seen on Wednesday after CPI, although it was not enough to see an unwind of market pricing which is still priced much more hawkish vs earlier in the week. The buck then rebounded to a peak of 105.53 but gradually sold off throughout the remainder of the session as the risk tone improved to see DXY unchanged on the day.

The Euro was little changed but with a softer bias in wake of the ECB. The ECB left rates unchanged as expected but it did not give explicit guidance to a June rate cut, although Lagarde in the press conference repeated her message that they will have a lot more information available by June. She also revealed some policymakers had been looking to cut at this meeting, but ultimately rallied around the consensus. Reuters sources later revealed the dovish policymakers are looking for a July rate cut, following a rate cut in June amid a benign labour market. However, others think the case for a pause after a June cut is becoming stronger due to a continued rebound in US inflation, energy and geopolitics. The reports noted that the hot US CPI was a source of discussion for the ECB.

The Yen was also flat vs the Dollar on Thursday although it still holds above 153.00 with little sign of FX intervention as of yet. Nomura Securities analysts stated, via Nikkei, that despite a notably tougher tone from officials since late March as the Yen hovered above the 152 mark, "there's no sense that they're going to intervene anytime soon."

Antipodes outperformed with the currencies benefitting from the Dollar's pullback amid the afternoon equity rally while AUD was also propped up by upside in iron ore prices.

The Pound saw gains on its cyclical factors but also on remarks from BoE's Greene. Greene stated via the FT that markets must stop comparing the UK and US, noting the inflation persistence is a greater threat for the UK than the US and that rate cuts are a way off. She later stated wage growth is still far too high and the UK has shown signs of coming out of a recession.

Scandis saw mild gains vs the Euro with NOK outperforming the SEK despite weaker-than-expected GDP data. For the SEK, Riksbank's Jansson said his view at the March meeting was that the development of inflation looked so favourable that it might have been possible to cut the rate even at that meeting, however, he warned the important thing is that inflation does not deteriorate. He also acknowledged that if the chance of rate cuts by the Fed disappeared completely, that would be a problem for them, noting the bank is very concerned about the Crown.

The Yuan was ultimately relatively flat vs the Dollar, both onshore and offshore, although China CPI data was cooler than expected for both M/M and Y/Y metrics, although PPI was in line with expectations.

EMFX was mixed. ZAR and TRY were flat while BRL and MXN saw marginal weakness despite stronger-than-expected Brazil retail sales data. Mexican Industrial output disappointed, however. CLP was flat but COP underperformed as oil prices fell. There was also commentary from the Colombian central bank chief, who said that maintaining caution in interest rate cuts is fundamental to avoid potential future reverses in monetary policy. Elsewhere, HUF saw decent gains vs the euro despite softer-than-expected core CPI data.

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