US Market Wrap

12th April 2024: Iran fear and lacklustre JPM report sees market tumble into the weekend

- **SNAPSHOT**: Equities down, Treasuries up, Crude up, Dollar up.
- **REAR VIEW**: Iran response reportedly imminent; China phasing out foreign chips; Mixed Big Bank earnings; Prelim UoM disappoints with inflation expectations rising to Nov. 2023 highs; Slew of Fed speak - Collins see rate cuts later than previously thought, Goolsbee notes if PCE is 'reinflating' the Fed 'will stabilise prices', Bostic affirms hawkish views, Daly states no urgency to adjust rates.
- **WEEK AHEAD**: Highlights include Previewing US and UK retail sales, UK, NZ, Canada and Japan inflation, China activity data and PBoC MLF. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing PBoC MLF; Reviewing FOMC Minutes, ECB, BoC, RBNZ, BoK. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [MON] GS, SCHW; [TUES] UNH, JNJ, BAC, MS; [WED] ASML, ABT, PLD; [THURS] TSM, ELV, BX, NFLX, ISRG; [FRI] PG, AXP. To download the report, please click here.

MARKET WRAP

Stocks were sold on Friday with Iran fears and poor bank earnings weighing into the weekend, with small caps suffering the most. Treasuries saw strong gains, paring some of the week's losses amid the Iran concerns and risk aversion. JPM saw heavy selling after investors were let down by the lack of guidance increase to its NII, while WFC and C performed relatively better. Chip names saw particular pressure amid WSJ reports China had told telecom carriers to phase out foreign chips. Bitcoin and crypto saw heavy losses amid the risk aversion. It was a rollercoaster session for oil and gold, with the pair of them having made fresh peaks on a slew of reporting in the NY morning of an imminent Iran response (which we still await), only to reverse lower into the close with many traders expecting a response that does not threat an escalation. The Dollar saw strong gains with the Iran fears underscoring the policy divergence of the Fed vs other central banks, particularly in Europe, who are seemingly much closer to beginning rate cuts. In data, the highlight was the University of Michigan survey's consumer inflation expectations, which both saw an unwelcome rise, albeit to levels that are consistent with post-COVID ranges, but that saw little price reaction. We also had a slew of Fed Speak from Collins, Schmid, Daly, and Bostic, who are all expressing caution in rushing into rate cuts, something which money markets have already adjusted to.

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SCHMID (2025 voter) said in a speech that with inflation running above target, economic growth continuing to show momentum, and elevated prices across a range of asset markets, the current stance of monetary policy is appropriate. Therefore, rather than preemptively adjust the policy rate, Schmid would prefer to be patient and wait for clear and convincing evidence that inflation is on track to hit target before adjusting the stance of policy. He said in his Q&A that there is reason to think rates will stay higher for longer. The Kansas City Fed president said reducing the balance sheet is important for two reasons: 1) it helps reduce the overall degree of policy accommodation at time when policy should remain restrictive; 2) to lessen the Fed's footprint in financial markets. He said the balance sheet is putting downward pressure on long-term interest rates, which is not suitable given the current state of the economy, saying his preference is for a much smaller balance sheet with a shorter average maturity, adding the composition should be mainly Treasuries (less MBS). He didn't mention whether he was in favour of tapering the pace of the balance sheet runoff, which some officials have said would allow the QT progress to go on for longer.

COLLINS (2025 voter) said she still expected inflation pressure to wane later this year and sees "in the range of two" rate cuts for 2024, while she cannot pre-judge when the Fed can start cutting rates. She later added that her base line is for rate cuts later this year, but later than she had initially thought.

GOOLSBEE (2025 voter) said the US is in an environment of "cross currents" and the Fed must get inflation back down to target. The Chicago Fed President added if PCE is "reinflating", the Fed "will stabilise prices", and noted the Middle East instability is a wild card for the Fed in terms of oil prices and gas; a negative supply shock is "not good".

BOSTIC (2024 voter) reaffirmed his hawkish tones noting he is "not in a hurry to cut interest rates" and still sees one rate cut towards the end of the year.

DALY (2024 voter) noted that with this week's CPI report, it is a good time to remind people that the Fed is not data-point dependent. But on rates, the San Fran President said there is absolutely no urgency to adjust the policy rate, saying there is too much discussion of how many rate cuts, rather than what the Fed is trying to accomplish. Daly added the Fed will maintain policy stance as long as necessary.

MICHIGAN: Prelim. UoM sentiment for April fell to 77.9 from 79.4, and shy of the expected 79.0. Current Conditions and the forward-looking Expectations indices fell to 79.3 (prev. 82.5, exp. 82.2) and 77.0 (prev. 77.4, exp. 77.6), respectively. Looking at the inflation expectations, both 1yr and 5-10yr ahead rose to their highest since November 2023, printing 3.1% (prev. 2.9%) and 3.0% (prev. 2.8%), respectively. On the data, Oxford Economics notes, “The significant improvements to confidence seen from November to January have officially waned and consumers views are stabilizing. Falling inflation should continue to support confidence, but we expect a slowdown in durable goods consumption and a slight rise in the unemployment rate will keep a lid on sentiment.”

FIXED INCOME

T-NOTE (M4) FUTURES SETTLE 18+ TICKS HIGHER AT 108-22

Treasuries pare week's losses amid fears around an Iran response. 2s -6.7bps at 4.895%, 3s -7.4bps at 4.723%, 5s -7.7bps at 4.546%, 7s -7.9bps at 4.534%, 10s -6.5bps at 4.511%, 20s -4.7bps at 4.737%, 30s -4.7bps at 4.615%

INFLATION BREAKEVENS: 5yr BEI -0.4bps at 2.454%, 10yr BEI -0.9bps at 2.402%, 30yr BEI -0.7bps at 2.337%.

THE DAY: Treasury upside began during APAC trade with reporting that Israel is prepared for an Iranian strike from its territory in the next 48 hours, providing a haven bid. The bid kept going during European trade, with EGBs leading after the dovish ECB meeting on Thursday, with fresh dovish commentary from officials adding momentum.

As state-side trade got underway, some cautious economic outlook comments from JPM CEO Dimon in the bank's earnings report and another fresh deluge of reporting on an imminent Iran response, with Bloomberg reports suggesting US security forces have been put on alert in the region, saw the upside accelerate. The rise in the Uni of Michigan survey's consumer inflation expectations failed to dent the bid. T-Notes peaked in the NY afternoon at 108-25, passing the post-PPI peak of 108-16+ on Thursday but still heavily beneath the 109-22 level we were trading at as CPI was released on Wednesday. Note that oil and gold saw heavy selling into the close as market fears subsided on the Iran response (many expect it to be a response that does not escalate tensions), although Treasuries only pulled back slightly into settlement.

There was little notable reaction to Fed Speak today with Collins (nv) saying her baseline for rate cuts is later this year, but later than she had initially thought. Goolsbee (nv, dove) said multiple inflation readings have been higher than the Fed wants, warning that if PCE is "reinflating", the Fed will stabilise prices. Schmid (nv) said the current stance of policy is appropriate, calling for patience on rates, saying that there is reason to think rates will stay higher for longer. While Bostic (voter, hawk) reaffirmed his one rate cut later this year view.

Looking to next week, participants await Monday's retail sales, where 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. We also have the 20yr auction next Wednesday, which, in the words of BMO, will be a "litmus test" on the appetite to step in a buy duration as the dust settles from the March inflation data.

NEXT WEEK'S AUCTIONS: US to sell USD 13bln of 20yr bonds (reopening) on April 17th and USD 23bln of 5yr TIPS new issue on April 18th; all to settle on April 30th.

STIRS:

- SR3M4 +3bps at 94.77, U4 +4.5bps at 94.935, Z4 +5.5bps at 95.13, H5 +7bps at 95.335, M5 +8bps at 95.52, U5 +8.5bps at 95.685, Z5 +9bps at 95.805, H6 +9bps at 95.885, M6 +9bps at 95.94, M7 +8.5bps at 96.085, M8 +8.5bps at 96.09.
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.857tln (prev. 1.909tln).
- NY Fed RRP op demand at USD 0.407tln (prev. 0.455tln) across 65 counterparties (prev. 69).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 92bln (prev. 86bln)

CRUDE

WTI (K4) SETTLED USD 0.64 HIGHER AT 85.66/BBL; BRENT (M4) SETTLED USD 0.71 HIGHER AT 90.45/BBL

Oil prices hit new YTD peaks on Friday after a slew of reporting on an imminent Iran response but unwound the majority of gains into the close. Prices had traded through the APAC session and European morning with a modest bid amid WSJ reporting about an imminent Iran response. However, the upside really got going in the NY morning with more media reports on the issue, where CBS reported Israel is bracing for a "worst-case scenario" that US officials believe could materialize "within just hours", followed by similar Bloomberg reports that added that the US is preparing defences and has moved additional military assets to the region. Reports of sirens in Israel only accentuated the crude bid. The rush to hedge geopolitical risk saw WTI (K4) and Brent (M4) futures peak at USD 87.67/bbl and 92.18/bbl later in the NY morning, fresh YTD peaks beyond those last Friday. However, prices began paring strength into the European close, and the downside continued to see the majority of the gains wiped out by settlement. While there are concerns of broader regional war/conflict, there are many traders who believe any response will become a "sell the news" event given how telegraphed the attack is and all the reporting that suggests any Iranian response would be done so to avoid further escalation. It appears those expectations are driving the strong pullback in prices despite the weekend risk.

EQUITIES

CLOSES: SPX -1.46% at 5,123, NDX -1.66% at 18,003, DJIA -1.24% at 37,983, RUT -1.93% at 2,003.

SECTORS: Materials -1.77%, Technology -1.64%, Consumer Discretionary -1.61%, Energy -1.54%, Health -1.52%, Communication Services -1.49%, Financials -1.44%, Industrials -1.07%, Real Estate -1.04%, Consumer Staples -0.91%, Utilities -0.74%.

EUROPEAN CLOSES: DAX: -0.28% at 17,860.73, FTSE 100: +0.91% at 7,923.80, CAC 40: -0.16% at 7,980.39, Euro Stoxx 50: -0.25% at 4,933.25, IBEX 35: +0.34% at 10,660.70, FTSE MIB: +0.15% at 33,638.48, SMI: -0.72% at 11,356.60.

EARNINGS:

- **JPMorgan Chase & Co (JPM)** -6.5%: NII was light and CEO Dimon said it fell on deposit margin compression and lower deposit balances. Looking ahead, GS remain alert to a number of significant uncertain forces. Reaffirmed FY NII view but was short of expectations for a raise.
- **Wells Fargo & Co (WFC)** -0.5%: Have been very choppy post-earnings: Top and bottom line beat, but net interest income and net interest margin missed. Looking ahead, affirmed it sees FY24 net interest income down between 7% and 9%.
- **Citigroup (C)** -1.5%: EPS and revenue beat, with the breakdown also strong, although net interest income did miss.
- **Progressive (PGR)** +1%: Profit, net premiums earned and written topped.
- **BlackRock (BLK)** -3%: EPS and revenue beat alongside AUM hitting a record USD 10.5tln.
- **State Steet (STT)** +2.5%: Revenue, EPS, NII, and AUM all topped street expectations.

STOCK SPECIFICS:

- **Globe Life (GL)** +20%: After declining 53% yesterday on a Fuzzy Panda short report, it issued a statement where it refuted the allegations.
- **Intel (INTC)** -5%, **AMD (AMD)** -4%: China has reportedly told telecom carriers to phase out foreign chips.
- **Morgan Stanley (MS)** -1%: Following a 5% decline on Thursday, after news its wealth management unit probed ahead of its earnings next week.
- **Arista Networks (ANET)** -8.5%: Double downgraded at Rosenblatt on AI boost skepticism.
- **Southwest Airlines (LUV)** -3.5%: Anticipates receiving only about half of the expected Boeing jet deliveries for 2024, significantly impacting its growth plans.
- **Coupang (CPNG)** +11.5%: Raising 'Wow' membership fee by 58%.
- **Paramount (PARA)** -3%: Asked by Barington Capital to engage Apollo (APO) on offer, according to Bloomberg.

US FX WRAP

The Dollar Index was firmer on Friday and hit of high of 106.11 on account of a haven bid amid an escalation in Middle East tensions, as multiple sources report of an imminent Iran response. Although geopolitics dominated the slate to end the week, it was the cherry on the cake after data earlier this week which has underscored the divergence amongst the Fed and other Central Banks on the 2024 easing path. Back to Friday specifically, Prelim UoM April disappointed, with both 1yr and 5yr inflation expectations rising, while there was a slew of Fed speak Collins (2025 voter) is in the range of two rate cuts for 2024, Schmid (2025 voter) urged patience on interest rates until clear inflation ebbing to 2% and said there is a reason to think rates will stay higher for longer. Bostic (2024 voter) reiterated his hawkish tones, noting he is not in a hurry to cut interest rates and reaffirmed one rate towards the end of the year.

Yen was the clear G10 outperformer on Friday, albeit still flat, as it benefitted from haven flows in wake of the aforementioned geopolitical turmoil, although the cross is hovering around earlier highs of 153.38. Nonetheless, amid the significantly weakening in the Yen this week the desk remains attentive to any sign/commentary around intervention, though Nomura does not believe there is a sense of this occurring any time soon.

All other G10 FX currencies were lower against the surging Buck on the aforementioned themes, with Antipodeans underperforming. The Loonie couldn’t garner any support from firmer oil, albeit well off earlier peaks, while the Pound did not get any support from the slightly firmer-than-expected GDP data. In terms of levels, AUD/USD and NZD/USD hit troughs of 0.6457 and 0.5935, respectively, against earlier highs of 0.6543 and 0.6010. Cable reversed from earlier peaks of 1.2558 to 1.2427 ahead of UK retail sales and inflation data next week.

ECB speak came from Kazaks and Stournaras, where the former towed the seemingly given ECB line of June rate cuts if nothing surprising occurs, while the latter reiterated his call for four rate cuts this year.

Scandis were weaker, but the SEK saw pressure in the European morning after cooler-than-expected inflation metrics.

EMFX was exclusively lower vs the Buck to end the week, and to avoid sounding like a broken record I shall not repeat. Despite saying this, the Yuan was pressured after weak Chinese trade data with the internals also poor. Extensive commentary from PBoC officials and reports since doing little to move the dial further. Lastly, Brazilian service sector growth for February disappointed, with M/M showing a surprise decline and Y/Y poor.