US Market Wrap

15th April 2024: Stocks slide further amid expected Israel response; bonds hit on strong retail sales

- **SNAPSHOT**: Equities down, Treasuries down, Crude flat, Dollar up.
- **REAR VIEW**: Hot US retail sales; NY Fed mfg. misses; Williams doesn't see recent inflation data as a game changer; Israel to retaliate against Iran; Stellar GS earnings; ECB speak in favour of June cut.
- **COMING UP**: **Data**: Chinese Retail Sales, GDP, German Wholesale Price Index, ZEW, UK Unemployment Rate, Canadian CPI, New Zealand CPI **Speakers**: Fed's Daly, Jefferson, Williams, Barkin, Powell; ECB's Rehn; BoE's Bailey, Lombardelli; BoC's Macklem **Events**: IMF World Economic Outlook, Fed Discount Rate Minutes **Supply**: Netherlands, UK **Earnings**: LVMH, United Health, UAL, Bank of America, Morgan Stanley.
- **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

The stock sell-off continued Monday to see the S&P 500 lose 2.6% across Friday and Monday, its largest two-day sell-off in more than a year, and now closing beneath its 50d MA for the first time in five months, according to Bloomberg, reflective of the weakening technical backdrop for risk assets. The VIX climbed above 19. While stock futures had made a recovery attempt during the overnight session after geopolitical hedges from the weekend were unwound, later reporting Israel was working on a retaliation contributed to renewed risk off conditions during stateside trade, with gold, oil, and haven currencies all finding some momentum into the APAC session here. Treasuries saw heavy losses, with the focus returning to the hot US economic conditions, highlighted by the massive beat in retail sales earlier, although yields did pare off highs as the geopolitical angst rose again into the NY afternoon. The Dollar Index hit new YTD peaks, while USD/JPY also found new multi-decade highs above 154, although some of the Iran/Israel angst has put a stop to the Yen's rot for now.

US

FED: NY Fed President Williams (voter), in a Bloomberg interview, said he does not want to speculate on rate moves but in his own view, rate cuts will likely start this year if inflation continues to come down, in relation to real rates. Williams said that consumer spending has been strong and the economy is seeing tailwinds from the supply side of the economy. On recent data, Williams said he does not see the March CPI report as a turning point, nor a game changer. However, he said it is important for affecting forecasts. Williams said he is more optimistic on potential growth while he reiterated monetary policy is in a good place whilst stressing data dependence. Williams also repeated he expects the economy will grow at a solid rate. He acknowledged that consumer spending is driven by strong fundamentals, yield markets are pretty stable, and the economy has come into better balance. Williams sees potential of around 2% growth or higher, also noting that wage growth is a bit high but it is moving in the right direction. The NY Fed President also said it is prudent to start slowing the pace of its balance sheet unwind.

RETAIL SALES: Headline retail sales rose by 0.7%, above the 0.3% forecast but down from the prior (upwardly revised) 0.9%, the ex-autos measure surged 1.1% from the prior 0.6%, above the 0.3% forecast, while ex-gas and autos rose by 1.0% from the prior 0.5% - showing widespread gains across consumer spending. The control group, which feeds into US GDP, rose by 1.1%, accelerating from the prior 0.3% and above the 0.4% forecast. Overall, a very strong report with the economy still showing resilience in the wake of Fed rate hikes. Looking into the report, upside in gas stations (+2.1%), Miscellaneous store retailers (+2.1%), nonstore retailers (+2.7%), and general merchandise stores (+1.1%) led the upside. Underperforming areas of business included Sporting goods, hobby/musical instruments and book stores (-1.8%), Clothing (-1.6%), Electronics (-1.2% and Motor vehicle and parts dealers (-0.7%). Despite the overall hot report with revisions higher, ING highlights "that the retail sales number is a nominal dollar growth rate and with inflation running so hot this is accounting for much of the growth. Real retail sales, i.e. retail sales adjusted for inflation, are much weaker and essentially have been flat for the past three years". Nonetheless, the Atlanta Fed GDPNow Q1 tracker has been bumped up to 2.8% from 2.4%.

EMPIRE SURVEY: Headline NY Fed Manufacturing activity index in April rose to -14.3 from -20.9, but not as much vs expectations of -7.5. New orders remained well in contractionary territory at -16.2, but saw a slight improvement from -17.2 in March. The Prices Paid component increased to 33.7 from 28.7 while employment saw a slight rise to -5.1 from -7.1. Looking ahead, the six-month conditions eased to 16.7 from 21.6. The report summarizes that business activity continued to decline in New York. The headline general business conditions index rose but remained below zero. "New orders and shipments both declined significantly, and unfilled orders continued to shrink. Delivery times shortened, and inventories edged higher. Labor market conditions remained weak, with employment and hours worked moving lower. The pace of input price increases picked up somewhat, while the pace of selling price increases held steady. Though firms expect conditions to improve over the next six months, optimism remained subdued". Despite a weak headline print, analysts at Pantheon highlight it is probably not a cause for concern and recently it has been a woeful guide to the national ISM manufacturing index.

NAHB: The NAHB housing market index for April was unchanged at 51.0 and in line with the expected, although responses were taken in the two weeks ended April 12th, with many of the responses coming in before hotter-than-expected CPI data on April 10th. On the release, Oxford Economics says its baseline forecast assumes that positive homebuilder sentiment and a need for housing supply will support modest increases in single-family housing starts over the rest of 2024. However, the consultancy adds, increases in mortgage rates would lend a downside risk to that forecast. Furthermore, Oxford notes homebuilders continue to scale back their use of incentives to encourage sales, but builders could ramp up the use of incentives again if mortgage rates rise much above current levels.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLE 25+ TICKS LOWER AT 107-28+

Treasuries sold off hard Monday as geopolitical risk hedges unwound and hot US retail sales put the focus back on the resilient US growth outlook. 2s +4.9bps at 4.931%, 3s +7.1bps at 4.783%, 5s +10.7bps at 4.642%, 7s +11.8bps at 4.642%, 10s +12.5bps at 4.624%, 20s +12.7bps at 4.853%, 30s +13.0bps at 4.733%

INFLATION BREAKEVENS: 5yr BEI +3.7bps at 2.494%, 10yr BEI +3.4bps at 2.440%, 30yr BEI +3.0bps at 2.368%.

THE DAY: Treasuries had been gradually tracking lower through the Monday APAC session and European morning with the unwind of geopolitical risk and return of focus to hot US economic conditions and shifting Fed calculus. While Iran has stated that it believes the matter has been resolved following its drone attacks over the weekend, the risk is now that Israel retaliates. Ahead of the US retail sales figures, price action in USTs had been very gradual rather than spikey, with little other market-moving catalysts.

T-Notes were at interim lows of 108-01+ before the above-forecast retail sales figures saw kneejerk selling, breaching through the last Thursday/YTD low of 107-27+; the smaller rise than expected in Empire mfg. survey was overlooked. Fed's Williams had also been speaking (again) on Bloomberg right after the data, saying he doesn't see the recent inflation data as a turning point, whilst saying monetary policy is in a good place, saying his own view is rate cuts will likely start this year. The downside in T-Notes extended to see session lows printed at 107-18+ before a ramp-up of reporting around an Israeli response saw contracts recover somewhat into the afternoon, although T-Notes struggled to hold above 108-00.

Looking ahead, Fed's Daly is speaking after hours. Although appearances from Fed Chair Powell and Vice Chair Jefferson both on Tuesday have the potential to mark a more formal shift in Fed comms to the recent inflation data if they so wish, although markets have already knocked off a lot of rate cut pricing this summer. Aside from those two, the week is laden with appearances from other Fed officials. Meanwhile, we get a slew of economic data that includes housing starts and IP on Tuesday, Beige Book on Wednesday, Philly Fed, IJC, and existing home sales on Thursday, with a quiet Friday to give set up for next week's 2s, 5s, and 7s auctions. But before then, Wednesday's 20yr bond auction will serve as a litmus test for dip buying after recent fixed income weakness, followed by the 5yr TIPS auction on Thursday.

THIS 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 -2bps at 94.75, U4 -3bps at 94.91, Z4 -5bps at 95.09, H5 -6bps at 95.285, M5 -6.5bps at 95.465, U5 -7 bps at 95.625, Z5 -8bps at 95.735, H6 -9.5bps at 95.80, M6 -10.5bps at 95.85, M7 -13.5bps at 95.96.
- SOFR flat at 5.31%, volumes fall to USD 1.805tln from 1.857tln.
- NY Fed RRP op demand at USD 0.327tln (prev. 0.407tln) across 62 counterparties (prev. 65).
- EFFR flat at 5.33%, volumes fall to USD 88bln from 92bln.
- US sold USD 75bln of 3-month bills at 5.250%, covered 2.95x; sold USD 75bln of 6-month bills at 5.155%, covered 2.79x.

CRUDE

WTI (K4) SETTLES USD 0.25 LOWER AT 85.41/BBL; BRENT (M4) SETTLES USD 0.35 LOWER AT 90.10/BBL

Oil prices hit multi-week lows on Monday as geopolitical risk was unwound while the Dollar made new YTD peaks. Prices trundled lower into stateside trade, with hedges from the weekend unwinding despite threat of an Israel response to Iran, with WTI and Brent troughing at USD 84.05/bbl and 88.73/bbl, respectively, in the NY morning. The benchmarks found a fleeting bid later on amid reports in WSJ and Axios that talked of Israeli officials promising a response; reporting suggests that response could be a cyberattack or targeted attacks on key state-owned sites such as Iranian oil infrastructure. However, that failed to lead to much of a sustained recovery at the time. But there was a more pronounced recovery later on amid the US announcing it will not renew the temporary license (which expires April 18th) that eased sanctions on Venezuela's oil and gas sector unless progress is made by President Maduro. More reporting about an Israeli response being imminent likely provided some support too. Elsewhere Monday, Reuters reported Russia has managed to restore some primary oil refining units hit by Ukrainian drones. Reuters also reported separately that Russia's March seaborne oil product exports were down 4.2% M/M. From a technical perspective, the oil tape is starting to look slightly vulnerable after a solid momentum rally YTD, with front-month benchmarks gravitating towards their 20d MAs (c. 83.90/bbl for WTI and 88.30/bbl for Brent), which they haven't traded beneath since mid-March, but are holding firm for now.

EQUITIES

CLOSES: SPX -1.2% AT 5,062, NDX -1.65% AT 17,707, DJI -0.65% AT 37,735, RUT -1.37% AT 1,976.

SECTORS: Technology -1.99%, Real Estate -1.77%, Consumer Discretionary -1.62%, Communication Services -1.62%, Energy -0.91%, Utilities -0.91%, Industrials -0.73%, Financials -0.51%, Materials -0.49%, Consumer Staples -0.45%, Health -0.19%.

EUROPEAN CLOSES: DAX: +0.41% at 17,937.62, FTSE 100: -0.36% at 7,949.00, CAC 40: +0.43% at 8,028.84, Euro Stoxx 50: +0.58% at 4,972.05, IBEX 35: +0.01% at 10,660.20, FTSE MIB: +0.52% at 33,890.48, SMI: +0.16% at 11,374.10

STOCK SPECIFICS:

- **Goldman Sachs (GS)** +3%: Earnings impressed; EPS, revenue, and other key metrics all beat, alongside a strong revenue breakdown.
- **Charles Schwab (SCHW)** +2%: Post-earnings, CFO expects net interest margin expansion through 2024. In earnings, they were mixed - top and bottom line marginally beat, but internals were more mixed.
- **Tesla (TSLA)** -5%: Lays off "more than 10%" of its global workforce. Separately, CEO Musk announced a cut in the price of the FSD package to USD 99/month.
- **Apple (AAPL)** -2%: iPhone shipments fell 10% in Q1 and short of Wall St. expectations as it was hurt by intensifying competition by Android, according to IDC.
- **Informatica (INFA)** -7%, **Salesforce (CRM)** -7%: Salesforce is in advanced negotiations to acquire Informatica, WSJ reports. The sources add the price being discussed is below INFA''s current share price of USD 38.48.
- **Blackbaud (BLKB)** +3%: Clearlake offers USD 80/shr to acquire Blackbaud (BLKB). Note, BLKB closed Friday at USD 76.72.
- **Snap One Holdings (SNPO)** +30%: To be acquired by **Resideo (REZI)** -4% for USD 10.75/shr. Note, SNPO closed Friday at USD 8.14/shr.
- **Encore Wire (WIRE)** +11%: To be acquired by Prysmian for USD 290/shr. Note, WIRE closed Friday at USD 260.98.
- **Medical Properties Trust (MPW)** +18%: Sold stakes in five Utah hospitals to a new JV with an affiliated investment fund for USD 886mln.
- **Cisco (CSCO)** -0.5%: Upgraded at BoFA citing three catalysts for growth acceleration.
- **Alcoa (AA)** +4: Benefitting from the surge in Aluminium prices.

- **Lockheed Martin (LMT)** +0.6%: Wins US missile defence contract worth USD 17bln, according to Reuters sources.

US FX WRAP

The Dollar was bid on Monday after a hot US retail sales report while the risk off trade on geopolitical angst also supported the buck to see DXY hit a fresh YTD peak of 106.23. Upside in US yields were also likely supportive. The peaks seen in wake of the retail sales had pared on a dovish Williams who appeared little phased by the recent inflation data, but multiple reports that an Israel response to the Iran attack helped support the buck to test those peaks again.

The Euro was softer as the Dollar rose but more ECB officials affirmed commitment to a June rate cut, at odds with expectations for the Fed. ECB's Simkus said a cut is possible in June and also in July, noting there is over a 50% chance of more than three cuts this year. Rehn and Kazmir both said the ECB can cut in June if inflation slows as expected. Lane however acknowledged there has been much less progress in relation to domestic inflation vs broader inflation measures, noting it should be recognised the current phase of disinflation is necessarily bumpy.

The Yen saw further pressure adding to recent peaks in USD/JPY to see the pair hit a high of 154.44. The peak was seen after the hot retail sales data in the US but it did briefly pare on Axios reports that Israel told the US it has no choice but to retaliate against Iran, but the Yen gains were short-lived, quickly rising back above 154.00, a level it resides above heading into APAC trade. There had been commentary from Senior MOF officials, noting they are in frequent and regular talks with the US and others on financial and FX market moves, we look for any more updates overnight. Elsewhere, the BoJ is reportedly shifting to a more discretionary approach in setting policy, with less emphasis on inflation, according to Reuters sources.

Gold prices hit a low of USD 2,324 after the hotter than expected retail sales data before paring on the aforementioned Axios reports and on WSJ reports that Israel could respond as soon as Monday. Gold rose throughout the rest of the session to hit a peak of USD 2,372/oz heading into APAC. Similar action was seen in the Franc, USD/CHF hit highs after the retail sales report but was off peaks on geopolitical angst (oil was also up off the lows).

Antipodes were hit on the downbeat risk sentiment and hot retail sales data with AUD/USD falling sub 0.6450 while NZD/USD found support at 0.5900; AUD outperformed its kiwi counterpart supported by gains in metals.

GBP was flat vs the buck and slightly firmer vs the Euro with participants eyeing inflation (Weds) and labour market (Tues) data due later in the week. BoE is currently priced for 50bps of rate cuts this year.

EMFX was mixed. BRL saw notable weakness in the wake of Finance Minister Haddad commentary. He said the fiscal target for 2025 is a zero primary deficit, walking back on more conservative prior targets, whilst noting that he has not seen any of the four names that President Lula nominated to the BCB being questioned, stating all four are contributing significantly. On USD/BRL, Haddad said it is at 5.20, but it will soon return to normal. MXN was also softer due to the risk off and Dollar strength despite commentary from Banxico's Heath who noted inflation is showing signs of persistence and it is entering a difficult terrain. COP and CLP underperformed however while ZAR was still softer despite upside in gold.