US Market Wrap

16th April 2024: Stocks chop as Powell and Jefferson play down rate cuts

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude flat, Dollar flat.
- **REAR VIEW**: Powell notes if inflation persists, rates can be maintained; Conflicting Israel reports on potential Iran response; Softer-than-expected Canadian CPI & US housing data; Mixed Chinese data; Hot headline UK wage metrics; UNH & MS earnings impress
- **COMING UP**: **Data**: Japanese Trade, UK CPI, PPI, EZ CPI (F) **Events**: Fed Beige Book **Speakers**: ECB’s Cipollone, Schnabel, Lagarde; BoE’s Greene, Haskel, Bailey; Fed’s Bowman, Mester **Supply**: UK, Germany, US **Earnings**: Entain, ASML, Volvo AB, Citizens Financials, Abbott.

MARKET WRAP

Stocks were choppy on Tuesday amid hawkish Fed speeches and mixed earnings reports as the indices attempted to find some ground after recent selling, with the VIX back under 19 and a lack of response (so far) from Israel. There were two key Fed speeches with both Vice Chair Jefferson and Chair Powell himself walking back comments around rate cuts, that weighed on Treasuries as yields continued to climb higher. There are now 40bps of cuts priced for the year in money markets vs 44bps beforehand. Banks were an area of weakness with Bank of America (BAC) and Bank of NY Mellon (BK) dipping post-earnings, although Morgan Stanley (MS) outperformed. Meanwhile, tech found some general recovery, while a solid UNH report supported Healthcare. The Dollar was ultimately flat. Note a mini-flash crash in USD /JPY in the NY morning ignited suspicions of BoJ intervention, although note the pair has recovered already. Oil prices were flat, although nat gas saw a late session spike which was followed by TC Energy (TRP) announcing it was responding to an incident in Yellowhead County involving NGTL with the affected section of pipeline having been shut down.

GLOBAL

CHAIR POWELL noted the recent data shows a lack of further progress on inflation this year and has not given greater confidence, and as such if higher inflation persists the Fed can maintain its current rate as long as needed. In terms of Core PCE (the Fed’s preferred gauge of inflation) he said 12-month expected to be little changed at 2.8% in March. Further still, the Chair added the current situation is not the standard case of inflation driven by overheated demand. By way of comparison, when Powell last spoke before the March inflation data, he often referenced expectations for rate cuts later this year, which are absent from these comments. More so, the Chair had also previously been eager to express that it's too soon to say if the recent inflation readings are more than just a bump, but he again hasn't used that language in these latest remarks.

VICE CHAIR JEFFERSON (voter), in a keynote speech, made no references to rate cuts, unlike his last policy remarks in February. "My baseline outlook continues to be that inflation will decline further, with the policy rate held steady at its current level, and that the labor market will remain strong, with labor demand and supply continuing to rebalance", Jefferson said. He also warned that if the data suggests inflation is more persistent than he currently expects it to be, "it will be appropriate to hold in place the current restrictive stance of policy for longer."

INDUSTRIAL PRODUCTION: US March IP data rose 0.4%, in line with expectations while the prior was revised up to 0.4% from 0.1%. Manufacturing output beat at 0.5% (exp. 0.3%), while prior was also revised up to 1.2% from 0.8%. Capacity Utilization fell slightly short at 78.4% (exp. 78.5%), with the prior revised down to 78.2% from 78.3%. Oxford Economics highlighted that mining output fell while utilities production partly recovered from the dip in February due to unseasonably warm weather. Looking ahead, OxEco sees IP increasing 0.5% for 2024, over double the pace in 2023. The desk highlights however that "This still is only a modest expansion, and despite the favorable trends listed, elevated interest rates, past tightening in lending conditions, and uncertainty around the outcome of the 2024 election will prevent an even stronger performance compared to last year."

HOUSING STARTS/BUILDING PERMITS: Building permits, the more forward-looking gauge of housing activity, fell 4.3% in March to 1.458mln from 1.523mln, and shy of the expected 1.515mln, while Housing starts tumbled 14.7% to 1.321mln (prev. 1.549mln), well short of the expected 1.487mln and outside the lower bound of the forecast range of 1.487mln. As Oxford Economics states, “The drop in permits and the spike in mortgage rates following the release of the March CPI report lend some downside risk to our forecast for a modest rise in housing starts over the rest of 2024.”

Nonetheless, the consultancy adds their current baseline assumes housing starts will rise to an annual pace of about 1.5 mln in the second half from 1.42mln in Q1. In addition, Oxford expect single-family starts, where there continues to be a shortage of supply, to drive the gains in housing starts in 2024.

ISRAEL/IRAN: After another Israeli war cabinet meeting on Tuesday, it is still unclear on how/if Iran will respond to the Iranian drone strike from the weekend. Some Israeli media reports (Kan news) suggest that some of the ministers' demands that Israel PM Netanyahu attack sensitive installations in Iran were refused, and the debate about the date of the response still continues. The reports suggested that the longer the attack is delayed, the more likely that it may not come into effect. The Times of Israel reported that Israel's thinking is that there is no harm in keeping Iran guessing by delaying a potential response, "Let them be anxious," an Israeli source said, adding that the response could be "within Iran or outside Iran".

FIXED INCOME

T-NOTE (M4) FUTURES SETTLE 7 TICKS LOWER AT 107-21+

Treasuries were sold on Tuesday after top Fed officials pushed back on rate cuts. 2s +4.1bps at 4.979%, 3s +4.8bps at 4.834%, 5s +5.3bps at 4.698%, 7s +5.1bps at 4.697%, 10s +4.8bps at 4.676%, 20s +3.8bps at 4.896%, 30s +3.6bps at 4.776%.

INFLATION BREAKEVENS: 5yr BEI -0.4bps at 2.495%, 10yr BEI -0.8bps at 2.429%, 30yr BEI -0.1bps at 2.366%.

THE DAY: After Monday's recovery from the post-retail sales low, T-Notes extended their geopolitical risk-infused bid into the Tokyo handover for the Tuesday session, peaking at 108-04. However, there was little appetite to extend the bid through the APAC session, although a strong demand reception at the BoJ's long-end auction taps provided a floor out of JGBs. Chinese activity data was mixed and led to little broader reaction. Downside gained momentum in the London morning with the hotter-than-expected UK wage growth offsetting the soft employment figures ahead of Wednesday's CPI. The hot German ZEW survey kept the bearish pressure on out of EGBs also later in the European morning.

T-Notes found a partial bid on the soft CAD CPI and US housing starts/permits figures, but extended lower again after Fed Vice Chair Jefferson removed references to rate cuts in a speech. T-Notes printed session lows of 107-13+ right after Powell, at an event with BoC's Macklem, also removed references to rate cuts saying inflation is "taking longer than expected" to hit target. However, contracts struggled to extend lower from there.

The rest of the week is laden with appearances from other Fed officials. Meanwhile, we still have a healthy slew of economic data, including 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 -1.5bps at 94.735, U4 -1bp at 94.895, Z4 -1bp at 95.08, H5 -2bps at 95.26, M5 -4bps at 95.42, U5 -6bps at 95.555, Z5 -7bp at 95.655, H6 -7bps at 95.725, M6 -6bps at 95.78, M7 -5bps at 95.90, M8 -5bps at 95.90.
- SOFR at 5.32% (prev. 5.31%), volumes at USD 1.938tln (prev. 1.805tln)
- NY Fed RRP op demand at USD 0.372tln (prev. 0.327tln) across 68 counterparties (prev. 62)
- EFFR at 5.33% (prev. 5.33%), volumes at USD 83bln (prev. 88bln)
- US sold USD 65bln of 42-day CMBs at 5.285%, covered 2.79x; sold USD 49bln of 1yr bills at 4.915%, covered 2.88x
- US leaves 4-, 8-, and 17-week bill auction sizes unchanged at USD 70bln, 75bln, and 60bln, respectively; 4- and 8-week to be sold on April 18th and 17-week bills on April 17th; all to settle on April 23rd.

CRUDE

WTI (K4) SETTLED USD 0.05 LOWER AT 85.35/BBL; BRENT (M4) SETTLED USD 0.08 LOWER AT 90.02/BBL

Oil prices were little changed on Tuesday amid ongoing angst around Israel and the firmer Dollar. Geopolitical risk remains the oil market's main focus and so far there has been no apparent mobilisation by Israel in regards to a response attack against Iran. The latest reporting has suggested that there has been an exercise of caution amongst some Israeli officials amid heightened external pressure from allies abroad whilst Israel is also looking to respond in a way that doesn't risk a regional war. There has been a lack of other major energy newsflow on Tuesday. In sell side commentary, Goldman Sachs says it expects oil prices to stay at the high end of its forecast range given disappointing US supply and a likely sticky geopolitical risk premium, while HSBC sees a higher probability that OPEC+ begins to unwind part of its supply cuts in Q3 given high oil prices. Attention now on the weekly inventory data with crude stocks expected to build 1.4mln bbls, gasoline to draw 0.3mln, and gasoline to draw 0.9mln.

EQUITIES

CLOSES: SPX -0.21% at 5,051, NDX +0.04% at 17,713, DJIA +0.17% at 37,798, RUT -0.42% at 1,967.

SECTORS: Real Estate -1.53%, Utilities -1.36%, Energy -0.87%, Materials -0.74%, Financials -0.62%, Consumer Discretionary -0.52%, Industrials -0.20%, Communication Services -0.12%, Health +0.02%, Consumer Staples +0.07%, Technology +0.23%.

EUROPEAN CLOSES: DAX: +0.12% at 17,713.50, FTSE 100: -1.82% at 7,793.91, CAC 40: -1.40% at 7,899.36, Euro Stoxx 50: -1.41% at 4,899.05, IBEX 35: -1.50% at 10,499.20, FTSE MIB: -1.65% at 33,310.99, SMI: -1.71% at 11,171.20.

EARNINGS:

- **Bank of America (BAC)** -3.5%: Was very choppy post-earnings; EPS, revenue, NII, and NIM beat with strong revenue breakdown, although CRE charge-offs rose to USD 304mln (prev. 115mln in Q4 and 39mln in Q3), albeit still at a low level. Post-earnings, next quarter NII view surpassed expectations.
- **Morgan Stanley (MS)** +2.5%: Strong earnings; EPS, revenue beat with strong Wealth Management revenue.
- **Bank of New York Mellon (BK)** -2%: Top and bottom line surpassed Wall St. expectations alongside a new USD 6bln buyback programme. But, forecasts lower-than-expected NII for 2024.
- **United Health (UNH)** +5%: Better-than-expected results.
- **PNC Financial Services (PNC)** -2%: Mixed earnings; bottom line and NII beat, but top line missed and said soft demand weighed on loan growth.

STOCK SPECIFICS:

- **Apple (AAPL)** -2%: Insider sales from COO and CFO
- **Microsoft (MSFT)** flat: Plans to invest USD 1.5bln in G42, a UAE-based AI company with ties to China.
- **Live Nation (LYV)** -7.5%: Set to be sued by the DoJ, according to WSJ.
- **Tesla (TSLA)** -2.5%: Confirmed it is planning to layoff 10% if its global workforce. Following this, JPMorgan said TSLA layoffs show delivery miss about demand, not supply.
- **Lockheed Martin (LMT)** +0.5%: Secured a USD 17bln contract from US Missile Defense Agency.
- **AMD (AMD)** +2%: Upgraded at HSBC on reset expectations.
- **Amazon (AMZN)** flat: Prime subs jump 8% in US to new high of 180mln, according to Consumer Intelligence Partners.
- **Envestnet (ENV)** +9.5%: Is exploring options including a sale with the help of a financial advisor, according to Reuters sources.

US FX WRAP

The Dollar was eventually flat on Tuesday, although the Index hit a YTD peak of 106.510 as Fed Chair Powell spoke and struck a hawkish tone noting recent data shows a lack of further progress on inflation this year and has not given greater confidence. The Chair added if higher inflation persists Fed can maintain current rate as long as needed. Prior to this, and although the Greenback was flat, the upside in yields was driven by a hawkish-leaning Jefferson who did not mention anything about easing later this year, while noting if inflation comes in above his expectations it will be appropriate to hold the policy rate at current levels for longer. On data, building permits and housing starts came in beneath analyst expectations while industrial production was in line with forecasts but manufacturing output beat.

NZD, AUD and CAD were all weaker vs. the Dollar to varying degrees as the Aussie underperformed as it was weighed on by mixed Chinese activity data. AUD and NZD hit lows of 0.6390 and 0.5869, respectively, against earlier peaks of 0.6445 and 0.5907. Meanwhile, the Loonie was hit in wake of the CPI data, which sent USD/CAD to a high of 1.3846. Overall, CPI on the net was softer-than-expected with headline M/M rising 0.6% (exp. 0.7), but accelerating from the 0.3% prior; Y/Y was in line at 2.9% (prev. 2.8%). The core numbers accelerated from the prior month, but the average for the trim median and common eased to 2.93% from 3.1%, falling back within the BoC's inflation target band of 1-3%. Note, the BoC MPR saw 2024 CPI at 2.6%, with Q1 CPI at 2.8% and Q2 at 2.9%. Post-data and at the Washington

Forum, Governor Macklem said the move lower in March core CPI shows inflationary pressures are continuing to ease, and continuing to move in the right direction.

JPY was slightly weaker with the cross residing towards session high of 154.78, but that followed what appeared to be intervention earlier in the session. On this, USD/JPY hit a peak of 154.77, which then swiftly saw a sharp move lower in the cross without any notable headlines, with many suspecting intervention and will likely further cement expectations that 155.00 is the line in the sand for Japanese officials.

EUR, GBP, and CHF were all more-or-less flat against the Dollar. For the single-currency, German ZEW saw a notable rise above expectations with a plethora of ECB speak hitting the wires. Out of the UK, Earnings were hot but the employment metrics were soft. Meanwhile, incoming Deputy Governor Lombardelli said the decline in inflation is likely to be bumpy, and she sees two-sided risks - she refused to put a date on when she expects rate cuts.

EMFX was almost exclusively weaker against the Buck with significant weakness in the BRL and MXN. For the Real, Brazilian President Lula is seeking to weaken its own budget targets as investor concerns rise about the risk of fiscal slippage. Also, the 2026 forecast for a primary surplus (which excludes interest payments) is also to be reduced from 1% to 0.25% of GDP, and this will delay the stabilisation of public debt levels, according to official forecasts. CLP was weighed on by lower copper prices after it sold off in wake of soft China industrial output data overnight. Lastly, the Yuan was flat despite mixed Chinese data overnight.