# US Market Wrap

## 17th April 2024: Tech weakness hits stocks while bond upside puts pressure on the buck

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Poor ASML earnings; Strong US 20yr auction; UAL earnings impress; Hotter-than-expected UK CPI; Biden calls for higher tariffs on Chinese steel
- **COMING UP**: **Data**: Australian Employment, US IJC, Philly Fed **Speakers**: BoJ Noguchi; ECB's de Guindos, Schnabel; Fed's Williams, Bowman, Bostic **Supply**: Spain, France, US **Earnings**: EssilorLuxottica, L'Oreal, Danone, EasyJet, Rentokil, Segro, Nokia, TSMC, Netflix, Elevance Health, Blackstone.

## MARKET WRAP

Stocks were sold on Wednesday with losses led by the Nasdaq as the Tech sector underperformed with semis weighed on by a poor ASML earnings report. Stocks had pared some of the weakness after a stellar 20yr bond auction before selling resumed into the closing bell. Elsewhere, the Dollar was sold as it tracked US yields lower which in turn supported the Yen, Franc and Euro but the Antipodes outperformed despite the risk-off tone of trade. GBP only saw slight gains vs the Buck but it was weaker vs the Euro despite hotter-than-expected inflation, but BoE officials did not seem too concerned. There were few developments on geopolitics today other than reports suggesting Israel was going to respond to Iran on Monday, but ultimately decided to wait - a response seems a given but it is still a matter of when and how. Elsewhere, trade concerns between the US and China are rising after US President Biden was calling for higher tariffs on Chinese steel. The lack of updates saw oil prices pare some of the recent strength with inventory data showing a larger build than expected supporting the move while gold prices saw slight losses, despite the weaker dollar. Attention turns to more Fed speak overnight and on Thursday, with Thursday US data focusing on Jobless Claims, Existing Homes Sales and the Philly Fed business index.

## FIXED INCOME

**T-NOTE (M4) FUTURES SETTLED 15+ TICKS HIGHER AT 108-05**

**Treasuries recovered Wednesday in a spell of short-covering, with dip buying appetite reflected in the solid 20yr auction**. At settlement, 2s -2.8bps at 4.936%, 3s -4.5bps at 4.772%, 5s -6.2bps at 4.620%, 7s -6.8bps at 4.612%, 10s -6.8bps at 4.589%, 20s -5.4bps at 4.824%, 30s -5.2bps at 4.705%.

**INFLATION BREAKEVENS**: 5yr BEI -3.0bps at 2.457%, 10yr BEI -2.2bps at 2.400%, 30yr BEI -2.1bps at 2.341%.

**THE DAY**: After Tuesday's sell-off post-Powell and Jefferson, Treasuries were choppy through the APAC session on Wednesday. T-Notes remained above the 107-13+ lows seen as Powell spoke on Tuesday, before recovering in the European morning, with fleeting weakness seen after the smaller fall than expected in UK CPI figures. A poor ASML earnings report that weighed on stock indices may have also lent some support to govvies. 107-27+ marked interim resistance for T-Notes ahead of the US session.

A renewed bout of Treasury strength was seen as stateside trade got underway with T-Notes making new session peaks. There was no obvious catalyst for the move (gold and oil were not bid, so apparently not geopolitical related either) and it is notably being led by duration with the short end underperforming, flattening the curve after Powell and Jefferson made hawkish shifts on Tuesday. The Treasury market has sold off a lot lately, so, it is unsurprising to see some short covering every now and then. The solid 20yr auction (details below) underscored the bid and T-Notes peaked for the session at 108-08.

We still have several Fed officials to speak this week with Mester and Bowman due after hours Wednesday. Meanwhile, we still have some more economic data, including 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, we have a USD 23bln 5yr TIPS auction on Thursday.

**20YR AUCTION**: Another super strong demand showing for 20yr Treasuries with the USD 13bln reopening stopping through the WI by 2.5bps, the largest stop-through since 2023, better than March's 2bp stop-through and the six-auction avg. 0.2bps. The auction was covered 2.82x, above the prior 2.79x and avg. 2.57x, Dealers were left with 9.1%, beneath the prior 9.3% and avg. 13.7%, with Indirects taking a chunky 74.7%, above the prior 73.5% and avg. 68.0%. After recent heavy selling, the auction was seen as a litmus test for dip-buying appetite, and it has clearly passed with flying colours.

**STIRS**:

- SR3M4 +0.0bps at 94.795, U4 +0.0bps at 94.955, Z4 +2.0bps at 95.290, H5 +4.0bps at 95.470, M5 +5.5bps at 95.620, U5 +6.5bps at 95.730, Z5 +7.0bps at 95.810, H6 +7.5bps at 95.865, M6 +7.5bps at 95.90, M7 +7.0bps at 95.985, M8 +7.0bps at 95.960.
- SOFR at 5.31% (prev. 5.32%), volumes at USD 1.809tln (prev. 1.938tln).
- NY Fed RRP op demand at USD 0.441tln (prev. 0.372tln) across 89 counterparties (prev. 68).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 83bln (prev. 83bln).
- US sold USD 60bln of 17-week bills at 5.240%, covered 2.81x.

## CRUDE

**WTI (K4) SETTLED USD 2.67 LOWER AT 82.69/BBL; BRENT (M4) SETTLED USD 2.73 LOWER AT 87.29/BBL**

**The crude complex was lower, and settled at troughs, as a larger-than-expected EIA crude build coupled with markets awaiting an Israeli response weighed on oil**. On the latter, and contrary to usual, updates have been sparse with the latest news stating Israel considered striking Iran on Monday but decided to wait. As such, focus will continue to remain on any material updates but details on the response remain light at the minute. On the EIA data, Crude stocks built 2.735mln (exp. 1.8mln), while in-fitting with the private inventory metrics, Distillate and Gasoline saw a greater-than-forecasted draw. Crude production was unchanged at 13.1mln and refining utilisation fell 0.2% (exp. 0.6%, prev. -0.3%).

## EQUITIES

**CLOSES**: SPX -0.58% at 5,022, NDX -1.24% at 17,493, DJIA -0.12% at 37,753, RUT -0.99% at 1,947.

**SECTORS**: Technology -1.71%, Real Estate -0.80%, Consumer Discretionary -0.57%, Industrials -0.57%, Energy -0.34%, Health -0.18%, Communication Services -0.12%, Financials +0.20%, Materials +0.21%, Consumer Staples +0.46%, Utilities +2.08%.

**EUROPEAN CLOSES**: DAX: +0.12% at 17,737.64, FTSE 100: +0.35% at 7,798.57, CAC 40: +0.62% at 7,958.00, Euro Stoxx 50: -0.05% at 4,899.45, IBEX 35: +0.97% at 10,528.50, FTSE MIB: +0.72% at 33,384.23, SMI: +0.21% at 11,181.81.

**EARNINGS**:

- **ASML ADR (ASML)** -7%: Revenue and bookings missed, with next quarter top-line guidance light.
- **United Airlines (UAL)** +17%: Posted a much shallower loss per share than expected and beat on revenue, while for the FY adj. EPS was light but revenue midpoint topped forecasts.
- **J.B. Hunt (JBHT)** -8%: Metrics disappointed with underwhelming commentary.
- **Citizens Financial (CFG)** +2%: EPS and net income beat.
- **US Bancorp (USB)** -3.5%: Total avg. deposits, loans, NII, and NIM were light, although do note top and bottom line marginally beat.
- **Travelers (TRV)** -7.5%: Fell short on EPS and net premiums written.
- **Prologis (PLD)** -7%: Lowers FY24 core FFO ex-items guidance.
- **Omnicom (OMC)** +1.5%: EPS and revenue surpassed Wall St. expectations alongside positive commentary.

**STOCK SPECIFICS**:

- **Tapestry (TPR)** -1% **Capri (CPRI)** -3%: FTC is preparing to sue to block Tapestry's USD 8.5bln takeover of Capri Holdings, according to NYT.
- **Mobileye (MBLY)** +3%: Secured orders for 46mln of the EyeQ6 Lite driver-assistance chips.
- **Eli Lilly (LLY)** +0.5%: Weight loss drug (Trezepatide) met all primary endpoints and key secondary endpoints in two Phase 3 clinical trials.

- **Sage Therapeutics (SAGE)** -20%: Phase 2 study of dalzanemdor did not meet primary endpoint.
- **Autodesk (ADSK)** -6%: Said it will further delay its annual 10-K filing due to an ongoing internal investigation of its board of directors.
- **Knight-Swift Transportation (KNX)** -4%: Lowers Q1 and Q2 guidance.
- **Microsoft (MSFT)** -0.7%: To reportedly avoid a formal EU probe over USD 13bln OpenAI deal, according to Bloomberg.
- **Zuora (ZUO)** +12%: Exploring potential options after receiving acquisition interest from potential buyers, according to Reuters sources.
- **Snap (SNAP)** +5%: US House Speaker Johnson says TikTok divest-or-ban bill is moving fast through Congress.

## US FX WRAP

**The Dollar** was ultimately lower on Wednesday amid a lack of tier 1 data and Fed speak with the move seemingly driven by the move lower in US rates and perhaps some reversal after the sharp upside seen recently. Attention after hours tonight will lie on Fed's Mester and Fed's Bowman, while Williams and Bowman are set to speak again on Thursday, as well as Bostic (twice) with data focusing on jobless claims and existing home sales, as well as the Philly Fed business index.

**The Euro** was bid thanks to the softer Dollar, paring somewhat from the recent lows with EUR/USD rising back above 1.0650. Note, with the recent Euro weakness - due to diverging Fed/ECB policy expectations - ING highlights that a falling Euro is not the ECBs biggest headache. The desk states that there are fears of reflation after the hot US inflation report, noting US headline inflation has simply led its eurozone counterpart by half a year since the pandemic. ING asks, how likely is parity? noting further policy divergence can be enough, but in their view, "we may well need to see the 2-year EUR/USD swap rate widening to more than the -175bp bottom, as the euro is no longer facing the kind of fundamental pressure on its longer-term fair value caused by the energy crisis"

**The Yen** saw gains vs. the Buck but USD/JPY still sits above 154.00 although the move lower in US yields was supportive of the currency. There was a notable bit of strength in quick succession with no headline driver but it only moved 25bps, nowhere near the whole point move seen on Tuesday. However, Citi highlighted that yesterday's move was unlikely intervention, as prior instances saw much larger traded volumes and a larger move in spot. Note, heading into the US market close, Japanese officials noted Japan is always communicating with the US and others on Japan's stance on FX and financial markets, but did not comment on how recent USD/JPY moves are assessed, nor on specific measures that could be taken.

**Antipodes** were bid despite the equity slump with upside supported by the weaker buck with the Aussie also underpinned by rising iron ore prices. In New Zealand, inflation data was cooler than expected at 3.7% in Q1 (exp. 4.0%), down from the prior 4.7%. Note, despite softer inflation data, ASB Bank pushed back their RBNZ rate cut forecast to February 2025 from November 2024.

**The Pound** was bid vs. the Dollar but softer vs. the Euro. UK inflation data was hotter than expected and also above the BoE forecasts. BoE's Greene noted cutting inflation to target is a bumpy ride but suggested data is encouraging, noting BoE is closer to target than a few months ago.

**The Loonie** was bid thanks to the weaker Buck while it appeared little phased to the slump in oil prices with a lack of Israeli response so far, but officials have expressed in recent days a response is almost certain, but likely in a way to limit a wider escalation.

**The Yuan (offshore)** was firmer vs. the Buck on Wednesday amid the dollar downside but US/China trade war woes are arising with Biden calling for higher tariffs on Chinese steel.

**In EMFX**, ZAR was flat vs. the weaker Dollar with South African inflation data softer than expected - gold prices were also lower. CLP saw gains amid rising copper prices, while the latest Chile Central Bank Minutes stated all board members agreed that 75bps or 100bps seemed most appropriate; but noted the option of a 75bp cut provided greater degrees of freedom. BRL saw strong gains, paring from some of the recent lows with BCB Chief Neto acknowledging the recent market reaction implies part of the repricing comes from the fiscal side, but a larger part from abroad. MXN also saw gains. Banxico's Heath spoke, noting that caution is important before normalising monetary policy rate in the face of persistent inflation. Heath said that maintaining restrictive policy is key for some time, until further concrete results are seen. He stressed the first and most important signs would be breaking persistent services inflation. He also said that Banxico does not need to follow the Fed.

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