US Market Wrap

18th April 2024: Stocks and bonds dip after Williams touts rate hike potential

- **SNAPSHOT**: Equities down, Treasuries down, Crude flat, Dollar up.
- **REAR VIEW**: Hot Philly Fed, with prices paid up; Williams potential rate hike scenario; Fresh Iranian bellicose rhetoric; TSM reversed initial gains post-results; MU to receive USD 6bln in Chips Act grants; Strong DHI & ALK earnings; Dovish ECB Villeroy comments.
- **COMING UP**: **Data**: Japanese CPI, German Producer Prices, UK Retail Sales **Speakers**: BoE's Ramsden; Fed's Goolsbee **Earnings**: SLB, American Express, PG.

MARKET WRAP

Stocks were subdued on Thursday, unwinding initial gains as the bearish trend continued. The downside came on the heels of Fed's Williams opening up the door to potential rate hikes, even though they are not his current base case. The weakness was led by tech, with TSM selling off after its earnings report where it trimmed its outlook for the semiconductor industry as a whole, despite decent quarterly figures and its own guidance. Treasuries bear-flattened after Fed's Williams, in addition to the hot Philly Fed survey, with prices paid at a YTD peak and the overall index at its highest level since 2022, not to mention set up for next week's 2s, 5s, and 7s auctions with little scheduled for Friday, although Goolsbee does speak ahead of the FOMC blackout. In FX, the Dollar edged higher as the Yen continued to weaken as participants await possible intervention. Euro was sold amid particularly dovish comments from ECB's Villeroy. Meanwhile, oil prices were choppy amid signs of technical fatigue in the oil market juxtaposed against some fresh Iranian bellicose rhetoric. Note that metals were bid, with copper and base metals in particular breaking out higher.

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WILLIAMS (voter), speaking at an event, warned that if the data called for higher rates, the Fed would hike. However, he made a point of saying that is not his base case, reiterating that policy is in a good place, whilst saying he don't feel the urgency to cut rates, but they eventually will need to be reduced. Note these comments are slightly more hawkish in tone than some of Williams' recent commentary, where he has put some focus on the upside risks to inflation/policy.

PHILLY FED: The headline Philly Fed business index saw a strong beat rising to 15.1 from 3.2 (exp. 2.3) to show the highest print since April 2022, showing that Philadelphia manufacturing activity continued to expand. The upside in the headline coincided with a surge in Prices Paid to 23 from 3.7, the highest since December 2023 and near, but below, its long-run average while both price indexes continue to suggest overall price increases. New Orders also improved, rising to 12.2 from 5.4 while the employment component eased slightly to -10.7 from -9.6. CapEx eased to 20.0 from 23.6 while the outlook, the 6m index, eased to 34.3 from 38.6, showing firms continue to expect growth but at a slower rate. Note, there were special questions within the survey on wages and overall, responses indicate a median expected increase of 3-4% for wages and of 4-5% for total compensation (wages plus benefits), both unchanged from July.

JOBLESS CLAIMS: Initial jobless claims (w/e 13th April) were unchanged at 212k, marginally shy of the expected 215k, leaving the 4-wk average unchanged at 214.5k. Meanwhile, continued claims (w/e 6th April) rose to 1.812mln from 1.810 mln, marginally above the forecasted 1.81mln. Note, the seasonal factors had expected a decrease of 6,369 (or -3.0%) from the previous week. Overall, initial jobless claims remain well below levels that would signal a major slowdown in job growth.

EXISTING HOME SALES: Existing home sales fell 4.3% in March to 4.19mln (prev. 4.38mln), more-or-less in line with the expected 4.2mln. Nonetheless, and as Oxford Economics points out, despite the fall, existing home sales posted a robust 8% increase in Q1 as buyers responded to lower mortgage rates and an increase in inventory. Looking ahead, OxEco baseline assumes a slight rise in home sales over the rest of 2024, but the risk to its forecast for sales is tilted to the downside, given the likelihood that the Fed does not start cutting interest rates until September. Elsewhere within the release, the supply of homes for sales, which is noisy month to month, posted its largest annual increase since last January.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 14+ TICKS LOWER AT 107-22+

Treasuries bear-flattened after Fed's Williams alluded to a rate hike tail scenario in the backdrop of a hot Philly Fed survey with eyes to supply. 2s +5.4bps at 4.986%, 3s +5.7bps at 4.821%, 5s +6.0bps at 4.677%, 7s +5.9bps at 4.664%, 10s +5.0bps at 4.635%, 20s +4.0bps at 4.859%, 30s +3.5bps at 4.734%.

INFLATION BREAKEVENS: 5yr BEI +2.5bps at 2.478%, 10yr BEI +2.1bps at 2.415%, 30yr BEI +1.6bps at 2.354%.

THE DAY: After Wednesday's recovery bounce in USTs (slight gains in duration OI suggest slightly more fresh longs added than shorts covered), the bid extended into the APAC session on Thursday. That came despite some hawkish leaning shifts in Mester's latest set of commentary late on Wednesday, and typically hawkish Bowman comments. The surprise decline in Aussie jobs provided some support out of AGBs instead, although a lacklustre demand reception at the BoJ's auction taps likely capped some of the bid.

T-Notes peaked for the session at 108-10+ at the London handover before gradually starting to dip. There was a bout of geopolitical hedge unwinds seen at the time amid reports that Israel was delaying potential Iran attacks, with Treasuries balancing the consequences of haven flows and lower oil prices. Whilst on supply, Spain saw solid demand at its auctions, while France's metrics came in soft.

Selling momentum picked up further in the NY morning, with T-Notes hitting a low of 107-29 on the back of the highest Philly Fed index reading since April 2022, which also included the highest prices paid since December last year. Note oil prices have begun climbing again amid Iranian official comments mentioning the potential for Tehran to review its nuclear doctrine. ECB's Villeroy was also on wires with some dovish comments, saying he is open to cuts at each meeting from June. T-Notes made new lows later in the morning on the heels of a hawkish shift in NY Fed's Williams commentary, who mentioned the possibility of rate hikes even though it's not his baseline view. Contracts ultimately bottomed at 107-20+ around midday and failed to make any meaningful recovery attempt ahead of settlement.

Looking ahead, we have a quiet Friday to give way to more attention on set up for next week's 2s, 5s, and 7s auctions with the Fed entering blackout period from the weekend ahead of the May 1st FOMC, which is expected to be a relatively uneventful meeting with the Fed on pause. Next week's highlights, outside of earnings reports, include Flash PMIs (Tues), durable goods orders (Weds), Q1 GDP advance (Thurs), and PCE (Fri).

5YR TIPS AUCTION: A solid 5yr TIPS new issue auction from the Treasury with USD 23bln sold at 2.242%, marking a stop-through of 2.8bps, better than the prior on the screws and six-auction avg. stop-through of 0.1bps. The 2.58x bid /cover ratio exceeded the prior 2.55x and avg. 2.45x. Dealers were left with just 3.9% (prev. 6.1% and avg. 7.5%), which is the second lowest on record after June 2023's 3.85%, with solid demand in both Indirects (78.3% vs avg. 76.0%) and Directs (17.8% vs avg. 16.5%).

NEXT WEEK'S AUCTIONS: US to sell USD 69bln of 2yr notes on April 23rd, USD 70bln of 5yr notes on April 24th, and USD 44bln of 7yr notes on April 25th; all to settle on .

STIRS:

- SR3M4 -0.5bps at 94.735, U4 -2.5bps at 94.88, Z4 -5.5bps at 95.05, H5 -7.5bps at 95.225, M5 -8bps at 95.40, U5 -8.5bps at 95.55, Z5 -8.5bps at 95.66, H6 -8bps at 95.74, M6 -8bps at 95.795, M7 -7bps at 95.92, M8 -6bps at 95.925.
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.731tln (prev. 1.809tln).
- NY Fed RRP op demand at USD 0.433tln (prev. 0.441tln) across 75 counterparties (prev. 89).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 80bln (prev. 83bln).
- US sold USD 75bln of 2-month bills at 5.275%, covered 2.90x; sells USD 70bln of 8-month bills at 5.280%, covered 2.90x.
- US leaves 42-day, 13-week, and 26-week bill sizes unchanged at USD 65bln, 70bln, and 70bln, respectively; 13- and 26-week bills sold on April 22nd, 42-day on April 23rd; all to settle on April 25th.

CRUDE

WTI (M4) SETTLED USD 0.05 LOWER AT 82.10/BBL; BRENT (M4) SETTLED USD 0.18 LOWER AT 87.11/BBL

Oil prices were choppy on Thursday amid signs of technical fatigue in the oil market juxtaposed against some fresh Iranian bellicose rhetoric. WTI and Brent (M4) futures hit session lows of USD 81.06/bbl and 86.09/bbl, respectively, at the NY handover, coming on the heels of reporting in the European morning claiming Israel's Netanyahu is postponing counter strike on Iran till after Passover next week, claiming he's promised a more limited retaliation in return for freedom to strike Rafah hard. However, losses were pared after the Senior Iranian Guards Commander Haghtalab said Tehran could review its nuclear doctrine, saying, "Our hands are on the trigger, Israel's nuclear facilities have been identified", saying Iran is ready to launch "powerful missiles to destroy designated targets in Israel... If Israel dares to hit our nuclear sites, we will surely hit back". The recovery was gradual and contracts managed to hit peaks of USD 82.84/bbl and 87.80/bbl, respectively, later in the afternoon, although contracts began paring again into settlement.

EQUITIES

CLOSES: SPX -0.22% at 5,011, NDX -0.57% at 17,394, DJIA +0.06% at 37,775, RUT -0.26% at 1,942.

SECTORS: Technology -0.89%, Consumer Discretionary -0.71%, Industrials -0.35%, Energy -0.22%, Health +0.02%, Real Estate +0.02%, Materials +0.03%, Financials +0.40%, Consumer Staples +0.41%, Utilities +0.61%, Communication Services +0.66%.

EUROPEAN CLOSES: DAX: +0.45% at 17,716.92, FTSE 100: +0.37% at 7,845.89, CAC 40: +0.52% at 7,976.40, Euro Stoxx 50: +0.47% at 4,907.35, IBEX 35: +1.23% at 10,686.20, FTSE MIB: +0.74% at 33,577.40, SMI: 0.00% at 11,172.91.

STOCK SPECIFICS:

- **TSMC (TSM)** -5%: Reversed initial gains after a strong report; slightly trimmed 2024 semi-industry growth forecast and semi demand for IoT remains sluggish in addition to announcing its Earthquake related costs.
- **Equifax (EFX)** -8.5%: Next quarter and FY guidance disappointed.
- **CSX (CSX)** +1.5%: Top and bottom line surpassed Wall St. expectations.
- **Alaska Air (ALK)** +4%: Posted a shallower loss per shr., revenue beat, with Q2 and FY profit view beating.
- **Comerica (CMA)** +1.5%: Beat on NII and avg. deposits.
- **Marsh & McLennan (MMC)** +2% and **Ally Financial (ALLY)** +6.5%: Reported solid results.
- **Las Vegas Sands (LVS)** -8.5%: Operating profit was short with Macau operations results also light.
- **Elevance Health (ELV)** +3%: Topped on EPS and raised FY outlook.
- **Blackstone (BX)** -2.5%: Lowered quarterly dividend.
- **Tesla (TSLA)** -3.5%: Downgraded at Deutsche.
- **BlackRock (BLK), MSCI (MSCI)** -1%: US House Committee is probing index funds that channelled billions of Dollars into blacklisted Chinese companies; probe is focused on BlackRock and MSCI, according to WSJ.
- **Google (GOOGL)** +0.5%: CEO Pichai says plan to share more AI progress on earnings call (earnings date April 25th).
- **Nordstrom (JWN)** +4.5%: Family reportedly weighing taking the retailer private, according to WSJ.

US FX WRAP

The Dollar was slightly firmer on Thursday and hit highs of 106.17 in the US afternoon as risk sentiment soured, sending equity futures and Treasuries to lows. In terms of the day, Philly Fed surpassed expectations with hot prices paid, as it hit its highest reading since December 2023 and near, but below, its long run average. Initial jobless claims were unchanged at 212k. Fed's Williams (voter) towed a slightly more hawkish line than usual, and while he reiterated that that policy is in a good place and doen't feel the urgency to cut rates, he did note while rate hikes are not his baseline forecast, if the data called for higher rates, the Fed would hike, which the market took note of, with yields climbing higher. Looking to Friday, ahead of blackout, Goolsbee is the only scheduled speaker with no tier 1 data.

G10 peers, aside from the CAD, all saw slight losses against the Greenback to varying degrees, although no currency saw steep losses. Currency-specific newsflow was fairly sparse, albeit there were some highlights which are mentioned below. Ahead, the highlights to conclude the week is Japanese CPI overnight and UK retail sales. CAD "outperformed" and was flat against the Buck, attempt to pare some of the selling it has seen recently.

For the **Yen**, BoJ board member Noguchi gave extensive remarks overnight (full comments available here) as he couldn't say whether there will be another hike this year. More recently, Governor Ueda said there is a chance weak Yen may affect trend inflation and if so, could lead to policy shift, while Japanese Finance Minister Suzuki noted FX levels reflect various factors and not just rate differentials. USD/JPY hit a high of 154.69, as attention as always will remain on any potential verbal intervention overnight.

For the **Aussie**, Employment surprisingly declined in 6.6k in March, against a forecasted 10k rise. Both **EUR** and **GBP** saw Central Bank speak - for the former Nagel, Knot, Villeroy, Simkus, and Rehn were on the wires with Knot noting he is not uncomfortable with the market pricing of rate cuts, and Villeroy noted barring major surprise, “we should cut rates in the next meeting” and is open to rate cuts at each meeting after June. BoE-wise, Greene said latest pay data shows pretty high wage growth, though moving in the right direction and latest inflation data surprised on the upside a little.

EMFX was largely weaker vs. the Buck on account of the broader risk sentiment as opposed to much currency specific. CLP was the clear outperformer and buoyed by the surge in cooper prices. Speaker-wise, South African finance minister said there is a possibility of downside risks to 2024 growth forecast, while BCB Chief Neto noted the bank has been for some time warning about the risk in the disinflation process; entering a period were there is a higher probability of higher interest rates for a longer period.