US Market Wrap

23rd April 2024: Stock bid resumes on weak PMI data ahead of key earnings and data

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Dovish US PMI metrics; Solid US 2yr auction; BoE's Pill offers hawkish remark; Nikkei sources noted BoJ will discuss the rapid Yen slide at the meeting; Materials earnings (SHW, CLF, NUE, PKG) all disappointed; iPhone sales fell 19% in China in Q1; GE, GM & DHR earnings impress.
- **COMING UP**: **Data**: Australian CPI, German Ifo, US Durable Goods, Canadian Retail Sales **Events**: BoC's Minutes **Speakers**: ECB's Cipollone; Schnabel **Supply**: Germany, US **Earnings**: Vinci, Carrefour, Orange, Air Liquide, Iberdrola, Roche, Volvo Car, Boeing, Boston Scientific, Meta, Chipotle, AT&T, Thermo Fisher Scientific, IBM, Norfolk Southern, Ford.

MARKET WRAP

Stocks continued their rally after the slump seen last week. The majority of the upside was sparked after the soft US PMI data with some cautious commentary on the labour market supporting the dovish move. As a result, the Dollar sold off throughout the session while T-Notes bull steepened. The 2yr auction was solid but it had little market impact with the PMI data driving price action throughout the session. In FX, the Dollar lagged while Pound outperformed after hawkish commentary from BoE Chief Economist Pill despite dovish remarks from Ramsden on Friday. The Yen saw some strength overnight on remarks from Finance Minister Suzuki that last week's discussions in Washington have laid the groundwork for Japan to take appropriate FX action. There was also a Nikkei sources article noting the BoJ will discuss the rapid slide of the Yen at their meeting later this week; helping keep USD/JPY sub 155.00. EUR/USD reclaimed 1.07 thanks to the dollar weakness. Meanwhile, on earnings, UPS, GE and GM figures were strong although Materials name underwhelmed.

US

PMIs: US S&P Global Flash PMIs for April were soft, as Manufacturing fell into contractionary territory printing 49.9 (exp. 52.0, prev. 51.9). Services fell to 50.9 from 51.7, and shy of the forecasted 52.0, leaving the Composite at 50.9 from 52.1. As a result of the cooler-than-expected metrics a broad-based dovish reaction was seen across markets. Within the release, it says "the US economic upturn lost momentum at the start Q2, and further pace may be lost in the coming months, as April saw inflows of new business fall for the first time in six months and firms' future output expectations slipped to a five-month low amid heightened concern about the outlook". Further still, the report adds that "notably, the drivers of inflation have changed. Manufacturing has now registered the steeper rate of price increases in three of the past four months, with factory cost pressures intensifying in April amid higher raw material and fuel prices, contrasting with the wage-related services-led price pressures seen throughout much of 2023."

NEW HOME SALES: New home sales in March rose 8.8% to 693k, above the expected 670k and the prior, revised lower, 637k. Internally, new home supply fell to 8.3 months' worth (prev. 8.8 months in Feb), with the median sale price falling 1.9% Y/Y to USD 430,700 from USD 438,900. Overall, while the headline surprised to the upside, a downward revision to February sales took some of the steam out of it. Looking ahead, Oxford Economics notes its baseline assumes that new-home sales will edge slightly higher over the remaining three quarters of 2024, although the recent backup in mortgage rates lends a downside risk to that forecast.

RICHMOND FED: Richmond Fed Survey of Business Activity saw the manufacturing index rise to -7 from -11. Of its three component indexes, shipments increased from -14 to -10, new orders increased from -17 to -9, and employment fell from 0 to -2. Wages also declined while prices paid eased but prices received saw a slight move higher. Looking ahead, firms expect little change in these growth rates over the next 12 months in prices.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 7 TICKS HIGHER AT 108-02+

Treasuries bull-steepened after ominous PMI report stokes labour market concerns. At settlement, 2s -4.2bps at 4.929%, 3s -4.0bps at 4.767%, 5s -3.6bps at 4.625%, 7s -3.0bps at 4.619%, 10s -2.1bps at 4.603%, 20s -0.8bps at 4.846%, 30s +0.2bps at 4.726%

INFLATION BREAKEVENS: 5yr BEI -0.4bps at 2.467%, 10yr BEI -0.5bps at 2.409%, 30yr BEI -0.3bps at 2.352%.

THE DAY: Treasuries were choppy and sideways through APAC trade on Tuesday. In Japan, the 2yr JGB auction saw strong demand while Japan's Finance Minister Suzuki said he will not deny that last week's discussions in Washington have laid the groundwork for Japan to take appropriate FX action (there are some market jitters over whether any potential intervention and whether it will be funded via Treasury sales).

Treasury selling pressure picked up in the European morning (out of EGBs) on the back of the European PMIs, with the services sector advancing to the upside, although the manufacturing side of the economy remains depressed. The downside in USTs extended into the NY handover with BoE's Pill expressing reticence to rush in with rate cuts, which counters some of the recent dovish BoE commentary.

T-Notes troughed for the session at 107-20+ (vs Monday low of 107-17+ and YTD low of 107-13+ from April 16th) before spiking on the release of the US Flash PMIs, immediately reclaiming the 108 handle, with the long end underperforming. There was particular concern on some of the commentary in the report, "The more challenging business environment prompted companies to cut payroll numbers at a rate not seen since the global financial crisis if the early pandemic lockdown months are excluded." T-Notes held on to their gains into the NY afternoon before peaking at 108-08 right after the strong 2yr auction.

Looking ahead, we have the 5s and 7s auctions due on Wednesday and Thursday, respectively, while for data, we have durable goods orders (Weds), Q1 GDP advance (Thurs), and PCE (Fri), with the Fed in its blackout period. We have a slew of earnings reports peppered throughout the week also.

2YR AUCTION: A decent 2yr auction from the Treasury with a ramp-sized USD 69bln sold at 4.898%, marking a stop-through of 0.6bps, better than March's 0.5bp tail and the six-auction average tail of 0.2bps with dip buying appetite seen as the cash 2yr backs up close to the 5% level, coming on the heels of the ominous Flash PMIs. The auction was covered 2.66x, above the prior 2.62x and avg. 2.59x. Dealers were left with 15.1%, above the prior 13.4% but beneath the avg. 16.3%, with a decline M/M in Directs participation offsetting the increase in Indirects participation.

THIS WEEK'S AUCTIONS: US to sell USD 70bln of 5yr notes on April 24th and USD 44bln of 7yr notes on April 25th; both to settle on April 30th.

STIRS:

- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.746tln (prev. 1.780tln).
- NY Fed RRP op demand at USD 0.436tln (prev. 0.410tln) across 71 counterparties (prev. 73).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 79bln (prev. 85bln).
- US sold USD 65bln of 42-day CMBs at 5.285%, covered 2.83x.
- Treasury 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 25th and 17-week bills on April 24th; all to settle on April 30th.

CRUDE

WTI (M4) SETTLED USD 1.46 HIGHER AT 83.36/BBL; BRENT (M4) SETTLED USD 1.42 HIGHER AT 88.42/BBL

The crude complex was aided by the weaker Dollar amid dovish US S&P Flash PMIs. Heading into the data WTI and Brent were hovering just off lows of USD 80.88/bbl and 86.03/bbl, respectively, before the softer-than-expected PMIs caused a broad-based dovish reaction (Dollar weakness, Stocks/Tsys bid) to support oil. Moreover, as the US session unfolded oil continued its upward trajectory to settle at highs. Note, in the EZ morning the complex faded the initial upside which stemmed from Flash PMIs in Europe with a geopolitical escalation yet to be seen in the Middle East. The latest is that the Israeli Army is reportedly preparing to launch a military operation in Rafah very soon. Elsewhere, Russia reaffirmed its 2024 oil output forecast of down 1.25% to 523mln T this year and sees crude exports nearly flat at 240mln T this year and rising gradually to 270mln T in 2027. Attention is now on the weekly inventory data with crude stocks expected to build 1.8mln bbls, gasoline to draw 1.4mln, and distillate to draw 0.9mln.

EQUITIES

CLOSES: SPX +1.20% at 5,070, NDX +1.51% at 17,471, DJIA +0.69% at 38,503, RUT +1.79% at 2,002.

SECTORS: Communication Services +1.86%, Technology +1.71%, Industrials +1.40%, Health +1.25%, Consumer Discretionary +1.18%, Real Estate +0.87%, Financials +0.68%, Energy +0.53%, Utilities +0.49%, Consumer Staples +0.15%, Materials -0.84%.

EUROPEAN CLOSES: DAX: +1.58% at 17,861.20, FTSE 100: +0.26% at 8,021.67, CAC 40: +0.81% at 8,052.57, Euro Stoxx 50: +1.43% at 4,962.55, IBEX 35: +1.70% at 10,924.30, FTSE MIB: +1.89% at 33,863.22, SMI: +1.25% at 11,422.08.

EARNINGS:

- **Cadence Design Systems (CDNS)** -1%: Next quarter's guidance was very light.
- In the industrials space, **Lockheed Martin (LMT)** (-0.5%) earnings topped but closed lower while **General Electric (GE)** (+8.5%) profit beat with a strong FY guidance. However, **JetBlue (JBLU)** (-19%) FY outlook disappointed as it now sees FY revenue down low single digits.
- In Materials, **Sherwin-Williams (SHW)** (-2.5%), **Cleveland-Cliffs (CLF)** (-11%), and **Nucor (NUE)** (-9%) all missed on EPS and revenue, and while **Packaging Corporation of America (PKG)** (-5%) Q1 metrics topped, next quarter profit view was light.
- **Spotify (SPOT)** +11.5%: Surpassed Wall St. expectations on both EPS and revenue.
- For Discretionary names, **General Motors (GM)** (+4.5%) report impressed accompanied by lifting FY guidance. In the housing space, **PulteGroup (PHM)** (+4.5%) EPS and revenue exceeded expectations. However, **LKQ Corp (LKQ)** (-15%) missed on the top and bottom line alongside lowering its FY revenue growth view.
- **Kimberly-Clark (KMB)** +5.5%: Metrics topped and raised FY revenue and profit view.
- Health Care names **Danaher (DHR)** (+7%) and **Quest Diagnostics (DGX)** (+5%) both beat on top and bottom line, with the latter lifting outlook.

STOCK SPECIFICS:

- **Apple (AAPL)** +0.5%: iPhone sales in China -19% in Q1 and down 24% Y/Y in the first six weeks of the year, according to Counterpoint Research.
- **HashiCorp (HCP)** +19.5%: **IBM (IBM)** reportedly nears a deal for HashiCorp, according to WSJ.

US FX WRAP

The Dollar was hit on Monday after weak S&P Global PMI data for both manufacturing and services. The data sparked a typical dovish reaction with upside in bonds and stocks also weighing on the Dollar.

The Euro was bid thanks to the weaker Greenback which saw EUR/USD briefly rise above 1.07 in response to the US PMI data. The Eurozone data also beat expectations, helping the Euro find a bid throughout the morning. ECB's De Guindos also spoke, noting a June rate cut looks like a set deal if there are no surprises. He did acknowledge, however, that what the Fed decides is crucial for the global economy and the ECB needs to take into account the impact of FX moments.

GBP was bid after hawkish commentary from Pill, particularly in relation to Ramsden on Friday. Cable reclaimed 1.2450 from lows of 1.2332.

The Yen saw some strength in the US session on a Nikkei sources article suggesting the BoJ are to discuss the Yen slide at the BoJ meeting on Friday. USD/JPY still remains near its 34-year highs, however. The Yen also saw some strength overnight on remarks from Finance Minister Suzuki who said that last week's discussions in Washington have laid the groundwork for Japan to take appropriate FX action.

AUD outperformed on the upside in equities while **NZD** and **CAD** also saw gains but not to the same extent as the Aussie with eyes turning to Australian CPI data this evening.

EMFX was mixed. BRL and MXN surged against the weaker Buck as the soft US data gave a boost to the two currencies on prospects of a potentially less hawkish Fed; although PCE data will determine that on Friday. However, CLP was weaker while COP was flat, with the former hit by lower copper prices and the latter supported somewhat by firmer oil prices, despite a downbeat start in the oil space. Elsewhere, HUF saw mild strength vs. the Euro in wake of the NBH rate decision which saw its rates cut by 50bps, as expected, while the governor reiterated guidance for a 6.5-7.0% base rate by the end of H1, which could imply two more 50bp rate cuts but in H2 the scope for rate cuts is very limited.

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