US Market Wrap

25th April 2024: Hot Q1 Core PCE Prices sees Fed cut pricing unwind further

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar down.
- **REAR VIEW**: Q1 Core PCE prices surge, while headline GDP growth eases; META increases spending outlook to investor dismay; BHP mulls move for NGLOY; LUV results miss and cuts guidance amid BA issues; JiJi sources report alludes to BoJ considering measures to reduce government bond purchases; Average 7yr note auction.
- **COMING UP**: **Data**: Japanese CPI, Spanish Unemployment Rate, US PCE, Personal Income **Events**: BoJ Policy Announcement; ECB Consumer Expectations Survey **Speakers**: ECB's de Guindos; SNB's Jordan **Earnings**: Porsche, NatWest, Safran, Colgate, Exxon, Chevron, Phillips 66.

MARKET WRAP

Stocks were lower on Wednesday after a plunge in META post-earnings and a hot Q1 Core PCE Prices figure, which introduced upside risks to Friday's March PCE data, saw Fed pricing shift hawkishly. However, the indices closed well off worst levels with semiconductors leading the recovery ahead of more key earnings with INTC, MSFT, and GOOGL all set to report after the close on Thursday. Treasuries bear-flattened after the hot Q1 core PCE prices, overlooking the lower than expected headline Q1 GDP, with the long-end recovery somewhat into the close; there was little reaction to the 7yr auction which saw average demand. The Dollar was eventually lower, unwinding initial strength on the data gradually, while USD/JPY hit new peaks of c. 155.75 ahead of the BoJ on Friday. Oil prices were firmer in choppy trade after losses on the stagflationary headline US GDP figures were unwound through the session. Metals saw strong gains.

GLOBAL

GDP: The Q1 advanced GDP report sparked fears of US stagflation, with the rate of headline GDP growth easing to 1.6% from 3.4%, beneath the 2.4% forecast, while the Core PCE Prices surged to 3.7% from 2.0%, above the 3.4% forecast, and above the top-end of analyst expectations. Elsewhere, GDP sales rose 2.0% (prev. 3.9%), Consumer spending rose 2.5% (prev. 3.3%), with the deflator rising 3.1% (exp. 3.0%, prev. 1.7%). Headline PCE prices rose 3.4%, accelerating from 1.8%. The super core PCE numbers, saw ex food, energy and housing rise 3.3% from 1.3%, with PCE Services ex energy and housing rising 5.1% from the prior 2.6%. It is worth noting that this is the first estimate of the Q1 data, which will likely be subject to revisions by the time the final data is released. The super hot core PCE prices have grabbed plenty of attention ahead of Friday's March PCE report. Ahead of the GDP data release, analysts at ING suggested a Core PCE print of 3.42% would imply a 0.3% M/M release on Friday for March, while a 3.55% print would imply a 0.4% M/M print; the print came in above these figures too, so participants are bracing for yet another hot inflation report on Friday. Markets now price in just 34bps of Fed easing throughout the year-end, with the first cut not fully priced until December (vs 42bps before the GDP data). Looking ahead, analysts at Pantheon Macroeconomics suggest the sluggish GDP likely sets the tone for the rest of 2024 and that today's growth data was not a blip. The consultancy also warns of an uptick at Friday's March PCE data, looking for a 0.48% M/M print if the prior months data is not revised.

JOBLESS CLAIMS: Initial Jobless Claims eased to 207k from 212k, despite expectations of an uptick to 215k and towards the lower end of analyst forecasts. Continued Claims, for the week that coincides with the usual BLS survey window, eased to 1.781mln from 1.796mln (revised down), despite expectations for a pick up to 1.805mln. Analysts at Oxford Economics suggest a break-even figure, a level consistent with no net job growth, would see claims at c. 260k. Given the data has consistently been coming in beneath that level it suggests that job growth is continuing. The desk writes we may see claims drift higher as the economy slows modestly this year, but they do not expect a major spike as they expect any labour market slowdown will be due to a slower pace of hiring and they do not forecast large-scale layoffs.

BOJ PREVIEW: The BoJ will conclude its 2-day policy meeting on Friday where the central bank is likely to maintain its policy settings after its monumental policy shift at the last meeting in March. As such, the focus at the upcoming meeting will likely be on the central bank's statement for clues on future policy and its views regarding the recent JPY weakness, while the central bank will also release its Outlook Report containing Board Members' latest median estimates for Real GDP and Core CPI. To see the full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 12 TICKS LOWER AT 107-11+

Treasuries bear-flattened Thursday after the hot Q1 core PCE prices introduced upside risks to Friday's March data. 2s +5.6bps at 4.993%, 3s +5.5bps at 4.851%, 5s +5.3bps at 4.712%, 7s +5.5bps at 4.723%, 10s +4.8bps at 4.702%, 20s +3.6bps at 4.937%, 30s +3.3bps at 4.817%.

INFLATION BREAKEVENS: 5yr BEI -2.0bps at 2.452%, 10yr BEI +1.9bps at 2.434%, 30yr BEI +2.8bps at 2.394%.

THE DAY: Treasuries were flat through the APAC session and European morning on Thursday with T-Notes capped in a 107-23/107-27 range with no major data ahead of the US session, with US stock futures trading with losses after the META plunge post-earnings on Tuesday evening. Contracts began creeping lower into the US morning.

T-Notes spiked from 107-22+ to 108-01 in an immediate reaction to the advance Q1 GDP figure (1.6% vs exp. 2.4%) before swiftly reversing to the downside as the hot core prices were digested (3.7% vs exp. 3.4%), which opened up the upside risks to Friday's March Core PCE data with analysts now pencilling forecasts between 0.3% to as high as 0.5% vs 0.2 to 0.3% beforehand. T-Notes hit lows of the day at 107-04 later in the NY morning before recovering to post-data peaks of 107-15 in the afternoon as the long end led a partial recovery. The front end remained pressured with Fed pricing now priced for just 35bps of cuts this year vs 42bps beforehand, while the first fully priced cut has moved back to December from November. There was little reaction to the average 7yr auction (details below).

Looking ahead, we now have the March PCE data on Friday, in addition to the Uni of Michigan survey (focus on the inflation expectations amid rising gas prices). But before then, watch for any impulses out of JGBs with the BoJ first up on Friday, where no action is expected but commentary on FX is on watch - note an article in Jiji on Thursday that the BoJ is mulling measures to reduce its government bond purchases (didn't provide a timeframe). Otherwise, attention on next week's Quarterly Refunding Announcement (no changes in coupons expected) and the FOMC with Powell expected to tow a more hawkish line given the data. Note that we are entering the month-end period too, so related buying flows will become a topic of conversation heading into Tuesday after the strong sell-off earlier this month.

7YR AUCTION: A respectable, albeit not amazing, USD 44bln 7yr auction from the Treasury, stopping on the screws at 4.716%, not as strong as March's 0.8bp stop-through despite the c. 50bps of cheapening since then, albeit better than the six-auction avg. tail of 0.6bps. The auction was covered 2.48x beneath the prior 2.61x and avg. 2.57x. Dealers were left with 13.9%, more than March's 12.9% but beneath the avg. 15.1%, with the rise in Directs to 21% from 17.4% offset by the fall in Indirects to 65.1% from 69.7%. There were certainly some concerns that the rates volatility after the hot Q1 GDP prices release earlier on Thursday could have seen primary demand step back, but that has not been the case, despite the upside risks to Friday's March Core PCE data. Additionally, given the auction settles on April 30th, the offering likely benefitted from some month-end demand, given it is the last coupon auction of the month. Note also that next week's QRA is expected to be relatively uneventful, with the Treasury expected to keep coupon auction sizes unchanged.

STIRS:

- SR3M4 -2.5bps at 94.71, U4 -5.5bps at 94.85, Z4 -7.5bps at 95.01, H5 -8.5bps at 95.185, M5 -8.5bps at 95.355, U5 -8.5bps at 95.505, Z5 -8bps at 95.615, H6 -7.5bps at 95.69, M6 -7bps at 95.74, M7 -6bps at 95.85, M8 -5bps at 95.845.
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.778tln (prev. 1.757tln).
- NY Fed RRP op demand at USD 0.444tln (prev. 0.441tln) across 74 counterparties (prev. 82).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 71bln (prev. 74bln).
- US sold USD 70bln of 1-month bills at 5.275%, covered 3.14x; sold USD 75bln of 2-month bills at 5.275%, covered 3.02x.
- Treasury left 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 29th, 42-day on April 30th; all to settle on May 2nd.

CRUDE

WTI (M4) SETTLED USD 0.76 HIGHER AT 83.57/BBL; BRENT (M4) SETTLED USD 0.99 HIGHER AT 89.01/BBL

Oil prices were firmer on Thursday in choppy trade after losses on stagflationary headline US GDP figures were unwound through the session. WTI and Brent futures hit session lows of USD 81.99/bbl and 87.31/bbl, respectively, in the NY morning, coming on the heels of the softer-than-expected headline US Q1 GDP advance reading, with the hot

Q1 Core PCE prices seeing Dollar strength (adding additional pressure on oil) as Fed expectations repriced hawkishly. However, futures recovered gradually into the afternoon and settled at session peaks, perhaps as the details were not as bad as feared (the trade balance had a large negative effect on the GDP, rather than stumbling consumer demand) and as the Dollar pared gains. Meanwhile, there may be an element of geopolitical premium being re-embedded with reports suggesting an Israel invasion of Rafah is nearing. There has also been some heating up of tensions between Russia and NATO on Thursday. Separately, Reuters reported Russia has warned Kazakhstan that its oil transit to Germany is at risk over service payment, putting at risk the production at Schwedt refinery, which is a key supplier of Germany's fuel needs. Reuters also reported that the European Commission plans to propose a ban on transhipments of Russian LNG in the next Russia sanctions package.

EQUITIES

CLOSES: SPX -0.46% at 5,048, NDX -0.55% at 17,430, DJIA -0.98% at 38,085, RUT -0.72% at 1,981.

SECTORS: Communication Services -4.03%, Health -0.62%, Real Estate -0.52%, Financials -0.51%, Consumer Staples -0.29%, Consumer Discretionary -0.2%, Technology +0.15%, Utilities +0.27%, Industrials +0.29%, Energy +0.5%, Materials +0.69%

EUROPEAN CLOSES: DAX: -0.91% at 17,723.79 FTSE 100: +0.48% at 8,078.86 CAC 40: -0.93% at 8,016.65 Euro Stoxx 50: -1.01% at 4,939.65 IBEX 35: -0.40% at 10,983.70 FTSE MIB: -0.97% at 33,939.75 SMI: -0.97% at 11,260.61 PSI: +0.19% at 6,542.23.

EARNINGS:

- **Meta (META)** -10.5%: Although Q1 earnings metrics surpassed expectations, tumbles on increased spending outlook largely due to increased investments in AI. To see full sell-side commentary post-earnings, please click here.
- **IBM (IBM)** -8.5%: Revenue missed and confirmed it has entered into an agreement to acquire HashiCorp (HCP) for USD 35/shr or around USD 6.4bln.
- **Merck & Co (MRK)** +3%: EPS, revenue, and Keytruda rev. all beat alongside lifting FY outlook.
- **Ford (F)** +0.5%: EPS and revenue topped, although offered cautious commentary on the EV space.
- **Royal Caribbean Cruises (RCL)** +0.5%: Profit and revenue exceeded consensus, alongside strong Q2 and FY EPS outlook.
- **Southwest Airlines (LUV)** -7%: Deeper loss per share than expected, revenue light, and cut FY ASM and revenue growth view amid challenges presented by Boeing aircraft delivery delays. Also, expects less than half of the new aircraft deliveries previously expected from BA.
- **Caterpillar (CAT)** -7%: Revenue missed and sees Q2 revenue and operating margins lower Y/Y.
- **Union Pacific (UNP)** +5%: Earnings impressed, resuming share buybacks in Q2 and noted its profitability outlook for 2024 is gaining momentum.
- **Bristol-Myers Squibb (BMY)** -8.5%: Lowered FY EPS guidance.
- **S&P Global (SPGI)** +0.5%: Strong report; Top and bottom line exceeded expectations accompanied by raising FY24 guidance.
- **Hertz (HTZ)** -19.5%: Much deeper loss per share than expected and it now plans to sell 30k EVs in 2024 as part of a disposition plan, an increase of 10,000 vehicles from its original target.

US FX WRAP

The Dollar was eventually lower on Thursday, despite the index hitting a high of 106.00 in wake of Q1 GDP report which sparked a broad-based hawkish reaction, with money markets now pushing back its first full Fed rate cut to December. On the data, which sparked fears of US stagflation, headline GDP growth eased to 1.6% (prev. 3.4%), beneath the 2.4% forecast, while the Core PCE Prices surged to 3.7% (prev. 2.0%, exp. 3.4%), and above the top-end of analyst expectations; although analysts point to the consumer metrics being firmer than the headline suggests. Overall, the Q1 Core PCE prices grabbed plenty of attention ahead of Friday's March PCE report. Ahead of the release, analysts at ING suggested a Core PCE print of 3.42% would imply a 0.3% M/M release on Friday for March, while a 3.55% print would imply a 0.4% M/M print; the print came in above these figures too, so participants are bracing for yet another hot inflation report on Friday. Nonetheless, as risk sentiment improved through the session and stocks came well off their earlier lows, the Dollar reversed the gains to hover around pre-data lows of 105.470, with long end yields also paring from highs. Ahead, mega-cap behemoths MSFT, GOOGL, and INTC report after-hours.

JPY was the G10 laggard against the Dollar, albeit only seeing slight losses, as USD/JPY hit a high of 155.74 with markets on high alert regarding intervention. With USD/JPY the pivotal focus, Citi says flows in FX and client questions from all asset classes have been revolving around intervention risks. The FX Strategy desk expects intervention around current levels, but its spot desk thinks low levels of realized JPY vol and proximity to BoJ meeting (in addition to Fed, NFP next week) add to reasons for restraint at this stage. Nonetheless, the Yen saw a bout of strength (albeit exceedingly fleeting) after JiJi reported that the BoJ is to reportedly consider measures to reduce its government bond purchases. Ahead, all attention is on BoJ overnight (Newsquawk preview available here).

GBP, CAD, CHF, EUR, and Antipodeans all saw mild strength vs. the Buck to slightly differing degrees as the Pound 'outperformed' and the Kiwi 'underperformed'. There was little currency-specific newsflow, and they seemingly benefited from the Dollar sell off as opposed to any headline driven trade. As previously mentioned, the souring risk sentiment abated in the NY session once Europe left for the day, with strength in semiconductor names helping offset some of the Meta-driven weakness.

In terms of levels, Cable resides around highs of 1.2515 after earlier lows of 1.2451, while AUD/USD and NZD/USD traded between 0.6486-6538 and 0.5921-67, respectively. USD/CAD resides at troughs at ~1.3650 with the Loonie benefitting from the oil prices recoiling off lows. Lastly, the Euro was choppy as while it initially benefited from the broad softness in USD with EUR/USD eclipsing yesterday's 1.0714 peak and the 12th April high at 1.0729, the US data then saw the pair lose the 1.07 handle to make a 1.0679 low.

Aside from the aforementioned macro-risk events, on Friday there is Aussie Q1 PPI, SNB Chair Jordan, ECB Consumer Expectations Survey, and ECB's de Guindos.

EMFX was mixed. COP, MXN, and BRL were all weaker, while CNH, TRY, ZAR, and CLP saw gains. The latter two were aided by notable gains in spot gold and copper, respectively. Lira was unreacted to the CBRT, where the Central Bank maintained its Weekly Repo Rate at 50%, as expected, and said monetary policy stance will be tightened in case a significant and persistent deterioration in inflation is foreseen. Elsewhere, South African PPI was slightly hotter-than-expected at 1.1% (exp. 1.0%, prev. 0.5%) with Y/Y in line with consensus at 4.6% (prev. 4.5%).