US Market Wrap

26th April 2024: Relief rally after in line March Core PCE

- **SNAPSHOT**: Equities up, Treasuries flatter, Crude up, Dollar up.
- **REAR VIEW**: GOOGL & MSFT impress, INTC disappoints; Core PCE quells fears; BoJ largely a non-event, but Yen notably weakens since; Final April UoM revised lower, but 1yr inflation expectations higher to a YTD peak.
- **WEEK AHEAD**: Highlights include FOMC, NFP, ISM, and PMI data. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing FOMC and Norges Bank, reviewing reviewing the BoJ, PBoC, CBRT. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: Mega-cap earnings come in aplenty with highlights from the likes of TSLA, BA, META, GOOGL, INTC, MSFT. To download the report, please click here.

MARKET WRAP

Stock Indices saw strong gains on Friday (SPX +1%, NDX +1.7%) although that appeared mostly a big tech earnings story (GOOGL +10%, MSFT +2%) with the equal-weight S&P flat. The macro highlight was the March Core PCE, +0.32% M/M vs exp. +0.3%, which led to a kneejerk relief dovish reaction after the hot Q1 GDP Prices data on Thursday stoked concerns over a hot March core PCE print today, with the hot Q1 data largely a function of upward revisions to the January data. Treasuries bull-flattened after the data (10s -4bps at 4.67%), with the long end outperforming (2s flat at 5.00%) ahead of next week's month-end, QRA, and FOMC. The Dollar Index saw notable gains although that was largely a function of the Yen posting its largest one-day fall of the year after a lack of hawkishness or intervention commentary at the BoJ, with USD/JPY hitting a new peak of 157.92 here at the close despite an earlier mini flash crash to lows of 155.00. Oil futures were modestly firmer in choppy trade, affirming a W/W gain for the first time in three weeks with little market-moving energy newsflow. Metals saw strength.

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PCE: The US core PCE price index for March rose 0.32% M/M, in line with the expected +0.3%, and relieving concerns of a potential 0.4% or even 0.5% print after Thursday's Q1 Core PCE prices came in significantly on the upside; that was above the prior +0.27% pace. The core Y/Y figure remained unchanged at 2.8%, above the expected fall to 2.7%. Many analysts had been pencilling in estimates between 0.2-0.3% before Thursday, although the upside risks spiked after the Q1 data came in much hotter than expected, where the March figure could have come in as high as +0.5% if the January and February data saw no revisions. However, the January and February data did indeed see some revisions taking some of the sting out of the March figure, with February revised up to +0.27% from +0.26%, while January was revised up to +0.50% from +0.45%. Despite offsetting some of the most hawkish scenarios, Oxford Economics warns, "the 0.3% reading for core inflation is still too hot for the Fed and it means that the downward trend in core inflation evident over the past two years has stalled." Regarding the breakdown of the data, the consultancy highlights that goods prices were flat, with the strength all in core PCE services, driven by continued strong readings in housing and stronger readings in services ex housing compared to the second half of 2023. On the outlook, Oxford Economics writes, "We still think that the decline in wage growth and a fall in rental inflation in the second half of the year will mean that overall inflation cools over the rest of 2024." Elsewhere in the March report, Personal Income rose 0.5% M/M, in line with the expected and up from the prior +0.3%, while Consumption rose 0.8%, above the expected 0.6% and the same pace as the prior. The strong spending was enabled by the savings rate falling to 3.2%, but Oxford Economics does not think this is cause for concern as it "mostly reflects the strong state of household balance sheets, with debt-to-income ratios low, the cost of servicing debt still extremely low, and household net worth rising rapidly amid elevated house and equity prices."

MICHIGAN SURVEY: UoM headline sentiment final April reading was revised lower to 77.2 from 77.9, with expectations for an unchanged print, while current-conditions and forward-looking expectations were revised to 79.0 (prev. 79.3) and 76.0 (prev. 77.0), respectively. 1yr consumer inflation expectations rose to the highest of the year at 3.2% (prev. 3.1%) and the 5-10yr was left unchanged at 3.0%, which is also the highest of the year. The headline print was dampened amid a worsening inflation expectations and poor performance by equity markets. Moreover, consumers were slightly more pessimistic about current economic conditions and expectations. Looking ahead, and as Oxford Economics states, “Methodology changes to the survey and the upcoming presidential election may increase the index's volatility over the course of the year. While falling inflation should continue to support confidence, we expect a slowdown in durable goods consumption and a slight rise in the unemployment rate will keep a lid on sentiment.”

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 7 TICKS HIGHER AT 107-18+

Treasuries bull-flattened Friday after the in line March Core PCE calmed nerves ahead of month-end, QRA, and FOMC. 2s +0.4bps at 5.002%, 3s -1.1bps at 4.843%, 5s -2.5bps at 4.692%, 7s -3.4bps at 4.690%, 10s -3.7bps at 4.669%, 20s -4.3bps at 4.899%, 30s -3.6bps at 4.784%.

INFLATION BREAKEVENS: 5yr BEI +0.5bps at 2.457%, 10yr BEI +0.3bps at 2.438%, 30yr BEI +0.7bps at 2.399%.

THE DAY: Treasuries were choppy during APAC trade on Friday, with little reaction to the BoJ's inaction, before finding a bid into the London handover. T-Notes hit interim resistance at 107-18 in what was dressed up as short-covering ahead of the weekend. There was little tier 1 data to dig into ahead of the PCE figures, although ECB Consumer Inflation Expectations survey for March saw the 12-months ahead gauge fall to 3.0% from 3.1%) and the 3-year ahead gauge left unchanged at 2.5%.

The in line March US core PCE of +0.3% M/M saw a kneejerk dovish reaction as the concerns of a 0.4% or even 0.5% print after Thursday's GDP data ultimately did not come to fruition, with T-Notes spiking from 107-14 to session peaks of 107-27+ in an immediate reaction before swiftly paring at least half the move. Contracts remained above pre-data levels for the rest of the session with duration outperforming in what appears to be some month-end-related buying flows after heavy selling earlier in April - there was particular strength in EGBs and Gilts - and perhaps some positioning into the refunding announcement. However, it's noteworthy that 2yr T-Notes closed the gap lower to pre-data levels, coming ahead of the FOMC next Wednesday where Powell is expected to strike a relatively more hawkish tone after the string of recent hot inflation prints.

Looking ahead, attention is on Monday's quarterly financing estimates (which led to a rally in USTs last quarter) ahead of Wednesday's Quarterly Refunding Announcement (no changes in coupons expected) and the FOMC with Powell expected to tow a more hawkish line given the data, followed by NFP on Friday. Note that we are entering the month-end period too, so related buying flows will remain a topic of conversation heading into Tuesday after the strong sell-off earlier this month. Elsewhere, flash German inflation data is sure to set the tone on Monday out of EGBs, where Tuesday also sees the release of German retail sales (March) and unemployment numbers (April), with final manufacturing PMIs on Thursday.

STIRS:

- SR3M4 -0.5bps at 94.705, U4 -0.5bps at 94.84, Z4 -1bp at 94.995, H5 -1bps at 95.17, M5 -0.5bps at 95.345, U5 flat at 95.50, Z5 +1bp at 95.62, H6 +2bps at 95.705, M6 +2.5bps at 95.76, M7 +4bps at 95.885, M8 +4.5bps at 95.885.
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.774tln (prev. 1.778tln).
- NY Fed RRP op demand at USD 0.465tln (prev. 0.444tln) across 78 counterparties (prev. 74).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 89bln (prev. 71bln).

CRUDE

WTI (M4) SETTLED USD 0.28 HIGHER AT 83.85/BBL; BRENT (M4) SETTLED USD 0.49 HIGHER AT 89.50/BBL

Oil futures were modestly firmer in choppy trade on Friday, affirming a W/W gain for the first time in three weeks. WTI and Brent futures hit session peaks of USD 84.46/bbl and 89.93/bbl, respectively, in the NY morning, but failed to extend from there, chopping for the rest of the session. In terms of newsflow, Russia's Energy Minister Shulginov said, via Interfax, that oil output and refining have not been affected by the floods in Russian regions; the energy ministry also reaffirmed Russia's oil and gas output targets for the year of 240mln T and 666.7 BCM, respectively. In the Middle East, production has been suspended at Iraq's Khor Mor gas field (106k BPD) after a drone attack, according to advisor to KRG PM, with some casualties reported. In the Americas, Mexico's Pemex reported crude and condensate production fell to 1.8mln BPD at the end of Q1 close vs 1.86mln at the end of Q4 amid operational issues. The Baker Hughes weekly rig count saw total rigs down six to 613, oil rigs down five at 506, and nat gas rigs down one at 105. And in terms of geopolitics, an Israeli official said via Channel 12 that there is a great will in the negotiations to reach an agreement but this will be the last chance before the Rafah operation commences, perhaps adding some geopolitical risk premium into the weekend.

EQUITIES

CLOSES: SPX +1.02% at 5,099, NDX +1.65% at 17,718, DJIA +0.40% at 38,239, RUT +1.05% at 2,001.

SECTORS: Communication Services +4.7%, Technology +1.85%, Consumer Discretionary +1.32%, Materials +0.63%, Industrials +0.17%, Real Estate +0.07%, Health -0.01%, Consumer Staples -0.19%, Financials -0.2%, Energy -1.03%, Utilities -1.12%.

EUROPEAN CLOSES: DAX: +1.39% at 18,166.91 FTSE 100: +0.75% at 8,139.83 CAC 40: +0.89% at 8,088.24 Euro Stoxx 50: +1.37% at 5,006.65 IBEX 35: +1.56% at 11,154.60 FTSE MIB: +0.91% at 34,249.77 SMI: +0.74% at 11,344.32.

EARNINGS:

- **Alphabet (GOOGL)** +10%: Stellar report - all major metrics beat alongside a new USD 70bln share buyback programme and its first ever dividend of USD 0.20/shr. Above forecast capital spending (positive for semiconductors).
- **Microsoft (MSFT)** +2%: EPS, revenue, and key revenue segments (cloud) topped, accompanied by upbeat commentary from the CFO. Note, Q4 guidance was actually slightly light, although the key Azure guidance impressed.
- **Intel (INTC)** -9%: Revenue missed with next quarter guidance short. CFO said it could have sold more AI PC processors and H1 was softer than had been expected.
- **Snap (SNAP)** +27.5%: EBITDA and EPS a surprise profit, while revenue, DAUs, and ARPU all beat. Q2 revenue guidance was also strong.
- **T-Mobile US (TMUS)** flat: Top and bottom line beat, but internals were slightly more mixed.
- **Western Digital (WDC)** +3%: EPS and revenue topped Wall St. expectations, with Q4 guidance also impressing.
- **Exxon (XOM)** -3%: Missed on profit with lower nat gas prices a headwind.
- **Atlassian (TEAM)** -9.5%: Q1 results were solid but weighed on after co-CEO decided to step down.
- **AbbVie (ABBV)** -4.5%: EPS, revenue and Humira exceeded expectations alongside raising FY profit view.
- **Skechers (SKX)** +11%: Strong Q1 earnings in addition to lifting FY outlook.
- **ResMed (RMD)** +19%: Top and bottom line topped Wall St. consensus.
- **Charter Communications (CHTR)** -1.5%: Earnings missed as did most of the key internal metrics.
- **Roku (ROKU)** -10.5%: Whilst the Q1 report was decent, the Co. warned of "difficult Y/Y growth rate comparisons" within its stream service distribution activities, citing past price hikes and a shift toward ad-supported streamers.

STOCK SPECIFICS:

- **U.S. Silica Holdings (SLCA)** +21.5%: Apollo Funds is to acquire U.S. Silica Holdings for USD 15.50/shr in cash, according to Bloomberg. Note, SLCA closed Thursday at USD 13.06/shr.
- **Boeing (BA)** +0.5%: Fitch revises Boeing's outlook to negative, but affirmed Boeing's 'BBB-' long-term issuer default rating and 'F3' short-term IDR.
- **Paramount (PARA)** -2%: Reportedly considering removing CEO Bob Bakish as turmoil over sales talks deepen, according to WSJ.

US FX WRAP

The Dollar Index was firmer despite Core PCE printing in-line with expectations and therefore avoiding a hawkish surprise (in the context of Thursday's hot quarterly PCE metrics). Support for the Greenback has primarily been as a result of significant JPY softness given the extent of the moves and the weighting of JPY in the Dollar index. 106.18 was the high print for the session. Next week there is a slew of risk events, namely QRA, FOMC, NFP, and continued mega-cap earnings from the likes of AMZN, AAPL, and chip-bellwether SMCI, with lots of risk from the Euro cross with German inflation figures on Monday.

JPY was the clear laggard and saw notable losses against the Buck and was once again the talk of the town, as it appears it will be for some time. The BoJ kept rates steady, amid a lack of hawkish surprises within the release and lack of forceful commentary on the JPY by the BoJ. Subsequently, USD/JPY ascended to an interim high of 156.82 in the European morning before being slapped down in a sharp move to trade at sub-155 levels in absence of any news. That proved a dip to buy and thereafter, the pair continued its move higher through the rest of the session peaking at the close here at 157.92 (and counting). Some may view the earlier sharp move lower as an intervention, but we have not seen any official confirmation of this, and there are many analysts that argue that it appears unlikely. Some suspect these mini flash crashes may be opportunistic participants attempting to create situations that appear to others like intervention. Note, Japan is on market holiday on Monday, so be aware for any further opportunistic dips, whether it's the BoJ or not.

AUD was the G10 outperformer and eked out slight gains vs. the Greenback as it benefited from broad-based commodity strength. As such, AUD/USD hit a high of 0.6554 and broke through its 200d and 50d MAs of 0.6526 and 0.6532, respectively. NZD was flat, with NZD/USD in a contained range between 0.5930-69.

CAD was flat, while **GBP**, **CHF**, and **EUR** all saw losses to varying degrees against the Dollar, albeit with none too steep. The currencies were weighed on by the Dollar bid (amid the Yen weakness) as opposed to any currency-specific newsflow. Cable hit a low of 1.2450 against an earlier high of 1.2540 and currently sits close to the round 1.2500. EUR /USD reversed from a peak of 1.0752 in the EZ session to a trough of 1.0675. Nonetheless, ECB Consumer Inflation Expectations survey for March saw the 12-months ahead gauge fall to 3.0% from 3.1%) and the 3-year ahead gauge left unchanged at 2.5%. Looking to next week, EZ flash CPI and GDP metrics are the highlights at the beginning of the week.

EMFX, in the main, noticed gains vs. the Greenback as it tracked the risk sentiment on Wall St. Elsewhere, the ZAR firmed as analysts stated a recent poll suggested there was no alternative to the governing African National Congress (ANC), despite a fall in its support. For the BRL, IPCA-15 Mid-Month CPI was cooler than expected for both April and Y /Y, which allowed CapEco to note that “this inflation release probably just keeps the door open to a 50bps move, rather than a smaller 25bps cut”. Lastly, Mexican unemployment rate in March fell to 2.3% from 2.5%, marginally more than the forecasted 2.4%.