US Market Wrap

30th April 2024: Markets dip after hot wage data puts the pressure on Powell

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Hot ECI; Soft Australian retail sales; Mixed Chinese PMIs; BoJ data suggest Japan may have intervened on April 29th; Israeli PM Netanyahu said Israel will enter Rafah with or without a ceasefire; LLY profit beat & raised guidance; Strong & MMM NXPI earnings; Chicago PMI & Consumer Confidence underwhelm.
- **COMING UP**: **Data**: Australian, UK, US Manufacturing PMI, US ADP Employment, JOLTS Job Openings **Events**: FOMC Policy Announcement, Treasury Quarterly Refunding Announcement **Speakers**: Fed Chair Powell; BoC's Macklem & Rogers **Supply**: UK **Earnings**: Next, GSK, Smith & Nephew, CVS, Qualcomm, MetLife, Pfizer, Automatic Data Processing, Marriott, Estee Lauder, Mastercard, DoorDash, eBay.

MARKET WRAP

Stocks were sold on Tuesday with the surprise rise in the Q1 Employment Cost Index ramping the hawkish pressure on the Fed ahead of Powell on Wednesday. There were kneejerk losses to the release, and then an extension lower through the US session, with the rate-sensitive small caps (Russell 2k) leading the losses. AMZN trades down 100bps ahead of its report after hours. The Dollar Index saw strong gains, with USD/JPY back to testing 158 to the upside to little fresh signs of intervention. Treasuries bear-flattened after the hot ECI print, not to mention a WSJ Timiraos article titled "Fed to Signal It Has Stomach to Keep Rates High for Longer". Fed pricing now sees under 30bps of cuts this year vs 35bps before the data today. Wednesday is action-packed, with FOMC, JOLTS, ADP, ISM mfg., and the Quarterly Refunding Announcement all due in the lead-up to Friday's NFP. Bunds saw particularly heavy losses with Eurex closed for Labour Day holiday on Wednesday and after the mixed European inflation figures earlier in the session. Elsewhere, the strong Dollar weighed on commodities, with notable losses in EMFX. Gold has hit its lowest levels since early April at c. USD 2290/oz.

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ECI: Headline employment costs rose in Q1 to 1.2% from 0.9% Q/Q, above the 1.2% forecast. Within the report, employment wages rose 1.1%, matching the prior revised pace. Employment benefits ticked up to 1.1% from 0.7%. Ahead of the FOMC due tomorrow, WSJ's Timiraos wrote a hawkish pivot (i.e, suggesting a a hike is more likely than a cut), appears unlikely for now but signs that wage growth was reaccelerating, alongside new, nasty supply shocks, and evidence the public was expecting higher inflation well into the future, could be a trigger. Given the ECI data is what Fed officials consider the most comprehensive measure of pay growth, it may be of concern, particularly some of the hawks. Nonetheless, Pantheon Macroeconomics takes the data with a pinch of salt, writing, "unfavorable rounding appears to be responsible for the 1.2% headline print. This is the third straight Q1 overshoot relative to the prior trend, hinting at - but not proving - residual seasonality in the data." The consultancy adds, "This likely will prove temporary, given the very clear message from the low and falling quits rate, but the Fed is uninterested in forecasts and this report will be deeply unwelcome." Pantheon believes there would need to be "a spectacular rollover in payrolls in May and June and equally spectacular inflation numbers in order to cut rates in June", and has pushed back its first rate cut forecast to September from June. Concluding, the consultancy writes, "we expect much better core inflation prints as recent idiosyncratic factors - including unfavorable residual seasonality in Q1 - fade away. For now, though, the ECI data will embolden the Fed's hawks."

CONSUMER CONFIDENCE: Headline Consumer Confidence fell in April to 97.0 from 104.7, a deeper fall than the expected 104. Within the report, it noted that average 12-month inflation expectations remained stable at 5.3% despite concerns about food and energy prices. Meanwhile, on the labour market, 40.2% of consumers said jobs were "plentiful," down from 41.7% in March and 14.9% of consumers said jobs were "hard to get," up from 12.2%. The differential between the two shrank to 25.3 from 29.5, Oxford Economics highlights this may indicate further softening in the labour market and an uptick in the unemployment rate ahead. There was a slight improvement in the consumers view of current business conditions, meanwhile expectations that stock prices will increase over the year-ahead declined and the share of those expecting higher rates rose. On a six-month basis, buying plans for homes and big-ticket appliances, which are interest-rate sensitive, continued to soften. Despite the headline drop, analysts at OxEco note that "this does not alter our forecast for real consumer spending. Near-term changes in confidence explain little of the fluctuations in real consumption, as the labor market, real disposable income, and household net worth matter more." OxEco also noted that consumers became more pessimistic due to elevated retail gasoline and food prices, weak performance of equity markets, rising global political conflicts and concerns about job availability and future income.

CHICAGO PMI: The Headline Chicago PMI data saw a large miss, falling to 37.9 from 41.4, despite expectations for a rise to 45.0, which is the joint lowest level since the 37.2 in November 2022. Analysts at Pantheon Macroeconomics highlight that the collapse in the data probably has few implications for the national picture, in addition to being heavily skewed to problems at Boeing (BA). The desk expects a small fall in the ISM Manufacturing index tomorrow but the larger picture is that "any recovery in the manufacturing sector is likely to be gradual, as high long-term interest rates continue to weigh on capital investment."

FOMC PREVIEW: The FOMC is expected to hold rates at 5.25-5.50% at its May meeting announcement on Wednesday at 19:00BST /14:00EDT. There are no new SEPs due at this meeting. Strong incoming data, which alludes to sticky inflation and a largely robust growth trend, are likely to keep the central bank cautious in rushing towards easing policy. That said, the recent meeting minutes stated that almost all participants judged it would be appropriate to pivot to a less restrictive policy stance at some point this year, though there has been a notable shift in tone in recent weeks' Fed Speak from officials to the hawkish side. Accordingly, traders will be attentive to the degree to which Chair Powell – whose presser begins at 19:30BST/14:30EDT – looks through recent upside in inflation data to gauge when it may begin its rate-cutting cycle. There are also expectations for the Fed to confirm its QT taper plans, although there are some tail risks that may be delayed given the data. To download the full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 16+ TICKS LOWER AT 107-14

Treasuries bear-flattened after a hot ECI print amps the pressure on the Fed ahead of FOMC and QRA. 2s +6.8bps at 5.041%, 3s +7.2bps at 4.878%, 5s +8.2bps at 4.721%, 7s +8.1bps at 4.710%, 10s +7.4bps at 4.686%, 20s +5.9bps at 4.908%, 30s +5.5bps at 4.792%.

INFLATION BREAKEVENS: 5yr BEI -1.2bps at 2.436%, 10yr BEI -0.5bps at 2.416%, 30yr BEI -1.0bps at 2.378%.

THE DAY: Treasuries extended their Monday bid into the APAC Tuesday session, where T-Notes hit a session peak of 108-00+ in the Tokyo morning. Contracts remained just off highs amid soft Australian retail sales and mixed Chinese PMI data. Better selling kicked in during the European morning, tracking Bunds amid the in-line to slightly firmer European inflation figures. T-Notes hit interim lows of 107-25 at the NY handover, coming on the heels of a fresh WSJ Timiraos article ahead of Wednesday's FOMC titled, "Fed to Signal It Has Stomach to Keep Rates High for Longer".

T-Notes recovered to 107-30 during the NY morning, with shorts cautious ahead of month-end, before tumbling to 107-16 after the hot Q1 Employment Cost Index raised the prospects of further core inflation pressures. Contracts managed to recover to 107-22+ after the poor Chicago PMI and dip in Consumer Confidence. However, contracts failed to close the gap any further from their pre-ECI levels, and contracts settled at lows. There was particular pressure in EGBs in late trade with Eurex closed for holiday on Wednesday. The Treasury curve has closed out the session in a bear-flattener in the run up to Powell, with Fed pricing now reduced to 30bps of implied cuts this year vs 35bps before the data.

Looking ahead, attention is on 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. We also get JOLTS, ADP, and ISM mfg. on Wednesday, and ISM Services on Friday.

QRA PRIMER: The Treasury is expected to announce at 13:30BST/08:30EDT on Wednesday its nominal coupon auction sizes will remain unchanged for the quarter ahead, with USD 54bln of 3yr notes to be sold on May 7th, USD 42bln of 10yr notes on May 8th, and USD 25bln of 30yr bonds on May 9th. Last quarter's announcement said, "Based on current projected borrowing needs, Treasury does not anticipate needing to make any further increases in nominal coupon or FRN auction sizes, beyond those being announced today, for at least the next several quarters." Any funding shortfalls in the near term are expected to be met with ramped bill issuance. The market may be sensitive to any commentary within the releases about the potential for coupon auction size increases later this year, as the Q1 meeting minutes hinted towards, "[Treasury] may consider recommending additional increases to coupon auction sizes over time based on changes in borrowing needs".

STIRS:

- SR3M4 -2bps at 94.685, M5 -10bps at 95.28, M6 -9.5bps at 95.725, M7 -8.5bps at 95.87.
- SOFR at 5.32% (prev. 5.32%), volumes at USD 1.781tln (prev. 1.795tln).

- NY Fed RRP op demand at USD 0.534tln (prev. 0.506tln) across 76 counterparties (prev. 75).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 78bln (prev. 94bln).
- 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 May 2nd and 17-week bills on May 1st; all to settle on May 7th.
- US sold USD 65bln 42-day CMBs at 5.285%, covered 3.06x.

CRUDE

WTI (M4) SETTLED USD 0.70 LOWER AT 81.93/BBL; BRENT (N4) SETTLED USD 0.87 LOWER AT 86.33/BBL

The crude complex saw losses on Tuesday, albeit in a choppy day in light newsflow with more geopolitical premium unwind. WTI (M4) and Brent (N4) futures saw gains through the European morning to highs of USD 83.30/bbl and 87.80/bbl, respectively, after punchy rhetoric from Israeli PM Netanyahu as he said they will enter Rafah with or without a ceasefire and hostage release. Later on, AFP citing an Israeli official, reported that Israel is to wait until 'Wednesday night' for Hamas' response to the Gaza truce proposal. Nonetheless, and in wake of the hot US ECI, all of the gains were wiped out by the NY energy cash products open as WTI and Brent hit troughs of 80.95/bbl and 85.45/bbl, before paring some of the move through the NY afternoon and into settlement. Elsewhere, via a Reuters survey, OPEC's April oil output fell by 100k BPD M/M to 26.49mln BPD, led by Iran, Iraq and Nigeria. Lastly, Goldman Sachs expects Brent to edge down to USD 84/bbl by December, while it still sees value in long oil positions as a hedge against geopolitical supply shocks and from an attractive roll yield perspective. Looking ahead, participants await the weekly private inventory data (expectations below) ahead of the weekly EIA numbers on Wednesday. Crude -1.1mln, Distillate -0.2mln, Gasoline -1.1mln.

EQUITIES

CLOSES: SPX -1.57% at 5,035, NDX -1.92% at 17,440, DJIA -1.49% at 37,815, RUT -2.09% at 1,973.

SECTORS: Energy -2.91%, Consumer Discretionary -2.66%, Technology -2.16%, Real Estate -1.85%, Materials -1.81%, Industrials -1.64%, Communication Services -1.49%, Financials -0.95%, Utilities -0.57%, Consumer Staples -0.42%, Health -0.1%.

EUROPEAN CLOSES: DAX: -1.08% at 17,921.95, FTSE 100: -0.04% at 8,144.13, CAC 40: -0.99% at 7,984.93, Euro Stoxx 50: -1.22% at 4,920.55, IBEX 35: -2.22% at 10,854.40, FTSE MIB: -1.60% at 33,746.66, SMI: -0.65% at 11,259.10.

EARNINGS:

- **Paramount Global (PARA)** -7%: Were initially choppy in pre-market trade. Nonetheless, profit and Paramount+ net additions beat, while revenue was light. Also, President and CEO Bob Bakish stepped down, as many outlets previously touted. Focus surrounds the ongoing merger chatter.
- **NXP Semiconductors (NXPI)** +4%: EPS topped Wall St. expectations alongside better-than-expected Q2 outlook.
- **McDonald's (MCD)** flat: Bottom line and comp. sales miss estimates as customers cut back spending and the Middle East conflict weighed on international sales.
- **PayPal (PYPL)** +1.5%: Profit topped and FY adj. EPS growth outlook is seen at low double-digit, against an expected decline of circa 4%.
- **Eli Lilly and Co (LLY)** +6%: Beat on profit and hiked FY guidance on strong sales of Zepbound and Mounjaro.
- **GE Healthcare (GEHC)** -14.5%: Q1 metrics short.
- **3M (MMM)** +5%: Top and bottom line surpassed expectations, with a 21% rise in quarterly profit as price hikes and cost cuts offset the impact from slow sales.
- **Coca-Cola (KO)** -0.5%: EPS and revenue beat, although it offered cautious remarks for the year ahead amid FX headwinds, also cites low income consumer headwinds.
- **Zebra Technologies (ZBRA)** +5%: Strong Q1 numbers with next quarter and FY outlook impressing.
- **Leidos Holdings (LDOS)** +6.5%: Top and bottom line beat in addition to lifting FY profit view.
- **F5 Networks (FFIV)** -9%: Top line light with soft next quarter outlook.
- **Corning (GLW)** +5%: Earnings exceeded expectations.
- **Samsung Electronics (SMSN)** earnings impressed and offered upbeat commentary amid AI tailwinds.

STOCK SPECIFICS:

- Of note for cannabis names such as **Canopy Growth (CGC)** +79%, **Tilray (TLRY)** +40% and ETF **MSOS** +26%: DEA moving to reclassify marijuana as a less dangerous drug, according to AP.

- **Warner Bros. Discovery (WBD) -**9.5%: NBC (CMCSA) prepares a USD 2.5bln annual offer to steal NBA rights away from TNT (WBD).
- **Tesla (TSLA) -**5.5%: CEO Musk plans more layoffs as two senior executives depart, The Information reports. Roughly 500 people will be laid off in supercharger group.
- **Nvidia (NVDA) -**1.5%: Upgraded at S&P to 'AA-' on continued strong AI investment cycle; outlook stable.

US FX WRAP

The Dollar was bid on Tuesday and clawed back some of Monday’s Yen-induced losses, after the hot US ECI (1.2% vs. 1.0% expected) saw the DXY reclaim 106.00 to the upside, before printing a peak of 106.26. Elsewhere, Chicago PMI and Consumer Confidence underwhelmed expectations, where consumer 12-month inflation expectations remained stable at 5.3% despite concerns about food and energy prices. Looking ahead, attention turns to the FOMC, JOLTS, ADP, ISM mfg., and QRA all on Wednesday, followed by NFP and ISM Services on Friday. Ahead of the FOMC, note WSJ's Timiraos wrote Wednesday that the Fed is to signal it has the stomach to keep rates "high for longer", noting that firmer price pressures could lead longer-term rates to rise as investors continue paring back expectations of cuts.

The Yen saw notable weakness highlighted by USD/JPY rising to a peak of 157.75 late in the session and on the heels of the hot US ECI data with participants cautious of any intervention. Regarding the move on Monday, a former Japanese top FX diploma said it was highly likely the government intervened to prop up the Yen. BoJ data also suggests they could have intervened, spending c. JPY 5.51-5.26tln or USD 35.3-33.7bln. Elsewhere, IP data beat expectations but retail sales missed.

Antipodeans were the clear underperformers on Tuesday, and relinquished Monday’s gains. For the Aussie, retail sales disappointed while CBA pushed back their first RBA rate cut forecast to November from September. Meanwhile, in New Zealand the ANZ business outlook eased to 14.9% from 22.9% M/M. As such, AUD/USD and NZD/USD hit lows of 0.6480 and 0.5895, respectively, vs. earlier highs of 0.6567 and 0.5979.

CAD, EUR, and GBP all saw losses against the Dollar to varying degrees, but outperformed their aforementioned G10 peers. The Loonie was hit on account of soft M/M Canadian GDP and strong US ECI data, while fresh UK catalysts were light. The Euro was softer as the Dollar caught a bid after the aforementioned ECI data paring the strength in the morning in wake of stronger than expected EZ GDP data and hotter than expected French CPI data, but EZ HICP was in line with forecasts, albeit core was slight firmer. Note, Eurex is closed on Wednesday due to Labour Day market holiday.

EMFX almost exclusively saw losses against the Buck, with only the Lira managing to eke out marginal gains as it was supported by lower oil prices. CLP and ZAR were notably lower and hit by steep losses in copper and spot gold, respectively. COP sold off before the Central Bank cut rates by 50bps to 11.75%, as expected, in a "majority" decision. Ahead of the BCB next week, Director Aquino said they have a very clear inflation target and see inflation expectations de-anchoring from targets, and as such central message is caution and will evaluate the data next week and make the best possible decision. Aquino added major concern is to have serenity and caution for monpol decision next week. Lastly, the Yuan saw slight losses, and overnight the NBS Manufacturing PMI data beat expectations although services PMI missed. Elsewhere, reports suggest China will hold a plenary meeting of the Central Committee in July to discuss economic development and reforms.