US Market Wrap

1st May 2024: Stocks and bonds pare initial dovish Fed gains

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Dovish Fed; Uneventful QRA; Mixed ISM mfg.; Softening JOLTS; ADP above expectations; AMZN earnings beat; Dismal SBUX report; SMCI revenue light; Surprise EIA crude build.
- **COMING UP**: **Data**: Swiss CPI, EZ Manufacturing PMI, US Challenger Layoffs, International Trade, IJC, Durable Goods **Events**: CNB Policy Announcement **Speakers**: ECB’s Lane; BoC's Macklem & Rogers **Supply**: France **Earnings**: Standard Chartered, Shell, Smurfit Kappa, ING, Novo Nordisk, Pandora, Swisscom, Apple, Moody's, ConocoPhillips, Becton Dickinson, Linde, Amgen, Pioneer Natural Resources, Moderna, Motorola, Zoetis, Booking, Cigna, Cardinal Health, Peloton.

MARKET WRAP

Overall a dovish reaction to the FOMC and Press Conference which saw the Fed leave rates on hold as expected but it also announced it is to taper its QT run-off to just USD 25bln a month from USD 60bln, slightly more dovish than the expected USD 30bln. The typical dovish reaction (upside in stocks, bonds, gold and downside in the Dollar) extended on Fed Chair Powell's press conference, albeit stocks saw a large reversal into the close in absence of a fresh catalyst, while bonds pared half the move. The Fed Chair said it is unlikely the next move will be a hike and the Fed is rather focused on how long to keep policy at its current level. Powell did admit several times that the recent inflation data does not boost the Fed's confidence in inflation returning to 2%, but he does believe policy is restrictive enough for that to occur. Money markets now price in c. 35bps of easing throughout 2024 vs 30bps pre Powell. Elsewhere, ahead of Friday's NFP, the ADP national employment print beat expectations at 192k while wages eased for both job stayers and changers. The ISM Manufacturing PMI was mixed, the headline dipped into contractionary territory but prices paid saw a notable increase while the employment component saw a slight gain. JOLTS data came in beneath expectations and the quits rate eased; a welcome sign for the Fed, something Powell mentioned as well. In oil, WTI and Brent tumbled on the huge EIA inventory build while we now await Hamas' response on the latest ceasefire/hostage release proposal. On earnings, chip names were hit on AMD's weakness after investors were disappointed in how much it raised its AI chip sales forecast while SMCI figures also disappointed. Meanwhile, AMZN. PINS, PFE & NYCB earnings impressed. SBUX, EL, CVS, and SWKS disappointed.

FED

FOMC STATEMENT ANALYSIS: The Fed left rates unchanged at 5.25-5.50% as expected, whilst also confirming the announcement of the QT taper. In its statement, it retained its description of economic activity continuing to expand "at a solid pace", repeating that "Job gains have remained strong, and the unemployment rate has remained low." It also repeated that inflation has eased over the past year but remains elevated, but crucially added the line, "In recent months, there has been a lack of further progress toward the Committee’s 2 percent inflation objective." At the same time, it said "risks to achieving its employment and inflation goals have moved toward better balance", that was changed from "are moving into better balance", reflective of some growing concerns of an employment downturn. The statement also kept its guidance that the Fed "does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent", the key being that the focus is still on rate cuts. On the QT taper, the Fed announced it will be tapering QT by USD 35bln from June, more than the USD 30bln estimate, whilst also maintaining the monthly redemption cap on agency debt and agency mortgage#backed securities at USD 35bln.

POWELL PRESSER/Q&A: The key takeaway from Powell's presser/Q&A was that the Fed remains satisfied with its current policy rate and future moves remained skewed to rate cuts, even though cuts have been delayed and the bar has been raised. He said when the Fed gets confidence on inflation, rate cuts will be in scope, but he does not have great confidence either way on whether there will be rate cuts this year. Powell said a rate hike remains unlikely, when asked, alleviating some hawkish risks that Powell may open up a more two-sided policy debate at this meeting. Powell stressed that he does not know when it will be appropriate to cut rates, but he did say the Fed believes it is restrictive and over time it will be proven to be "sufficiently restrictive" to bring inflation back down to 2%. The Fed Chair didn't put much focus on the hot Q1 Employment Cost Index from Tuesday, and even drew attention to some dovish data points such as the soft JOLTS job openings figures reported earlier on Wednesday, which he said showed that policy is restrictive. On the inflation path, Powell said his expectation is that it will move back down this year, albeit his confidence is lower than before, noting the substantial lags in when lower market rents will turn up in the data. And on the labour market, after saying the Fed would respond to an unexpected weakening in the labour market, Powell said a rise in unemployment would have to be meaningful for the Fed to react, saying "a couple tenths" of an increase in the unemployment rate doesn't count as an "unexpected weakening" that would justify cuts, caveating that it would have to be a broader thing that would suggest it would be appropriate to consider cutting rates. On the dual mandates, Powell said as inflation has come down to below 3%, the Fed's employment goal comes back into focus, reflecting the statement language that "risks to achieving its employment and inflation goals have moved toward better balance".

US DATA

ADP: Headline ADP National Employment rose by 192k in April, above the 175k forecast but it did ease from the prior revised up 208k (initially 184k, however). The Chief Economist at ADP noted that hiring was broad based where only IT, media and telecom sectors showed weakness, posting job losses and the smallest pace of pay gains since August 2021. Looking into the wages metrics, the median change in annual pay for job stayers rose by 5.0% (prev. 5.1%), while for job changers it eased to 9.3% from 10.0%. This data comes ahead of the Friday April NFP jobs report, but Pantheon Macroeconomics recommends ignoring the ADP.

ISM MANUFACTURING: ISM Manufacturing fell back into contractionary territory in April as it dipped to 49.2 from 50.3, and shy of the expected 50.0. The inflationary gauge of prices paid soared to 60.9 (exp. 55.0, prev. 55.8), printing outside the upper bound of the forecast range of 56.0. New orders slid back beneath 50.0 to 49.1 from 51.4, while production dipped to 51.3 (prev. 54.6). Ahead of Friday's April NFP, employment saw a slight improvement to 48.6 from 47.4. The hot inflation print and contractionary headline has added to stagflationary fears after the GDP report last week. Within the report, and specifically on prices, it notes the index moved further upward into strong expansion territory, as commodity-driven costs continue to climb. Further in the release, it notes "although demand improvement slowed, output remains positive and inputs stayed accommodative. Demand softening was reflected by the New Orders Index dropping back into contraction, offset by fewer comments regarding 'softening.'" Lastly, it adds "Head-count reductions continued (but showed signs of easing) in April."

JOLTS: JOLTS jobs openings in March fell to 8.488mln from the prior, revised lower, 8.813mln and beneath the consensus of 8.686mln which highlighted demand for workers continues to ease, with the headline metric declining to the lowest level in more than three years. In a welcome move by the Fed, the quits rate also fell to 2.1% from 2.2%, its lowest since August 2020, pointing to slower wage growth in the months ahead. WSJ's Timiraos also highlighted that within the data "The private-sector job vacancy rate fell to 5.3% in March, the lowest level since January 2021" and that "There were 1.3 vacancies for every unemployed worker in March, the lowest since August 2021". Overall, Oxford Economics summarise that the Fed will welcome signs of cooler labour market conditions but the data does not change their view that the Fed will be content to keep interest rates at current levels until September.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 21+ TICKS HIGHER AT 108-03+

Treasuries bull-steepened after the dovish Fed followed an uneventful QRA, mixed ISM mfg., and softening JOLTS. 2s -8.4bps at 4.962%, 3s -7.8bps at 4.806%, 5s -7.9bps at 4.644%, 7s -7.3bps at 4.637%, 10s -6.2bps at 4.622%, 20s -5.9bps at 4.848%, 30s -5.3bps at 4.736%.

INFLATION BREAKEVENS: 5yr BEI -3.4bps at 2.402%, 10yr BEI -3.0bps at 2.384%, 30yr BEI -2.6bps at 2.353%.

THE DAY: Treasuries were choppy through the APAC and European Wednesday session, with T-Notes capped by 107-18+ before trundling to a low of 107-12+, matching the Thursday low, later in the European morning. Catalysts and volume were light ahead of US catalysts. T-Notes then found some strength at the NY handover, breaking past the APAC peaks.

There was some two-way chop on the ADP employment data, where despite the headline beat on jobs added, focus was on the lower wage growth figures within the release, keeping the Treasury bid in play. Highs were extended after the quarterly refunding announcement, which came with little surprises (details below). And interim peaks for T-Notes of 107-26 printed on the heels of the ISM mfg./JOLTS figures, where the appetite to extend higher ahead of the FOMC was capped due to the spike in the ISM prices paid component amid surging commodity inflation, despite the weakness elsewhere in the report, not to mention the falling JOLTS job openings and quits rate.

T-Notes saw two-way action on the release of the FOMC statement, initially falling to 107-14 from 107-20 before reversing higher to new peaks at 107-29+, with the QT taper announcement slightly more than expected and the statement guidance still focused on rate cuts. Contracts then extended to session peaks of 108-06+ during Powell's presser/Q&A where he said a rate hike was unlikely, saying he believes current policy is restrictive and will prove sufficiently restrictive over time, but said he does not know how long it will take before the Fed can cut rates. Contracts saw some pullback into settlement.

Looking ahead, we get Challenger Layoffs, International Trade, Productivity, Jobless Claims, and Factory Orders all on Thursday, before the highlight in Friday's NFP, with S&P Services (final) and ISM Services also both due on Friday, with late appearances from Fed's Goolsbee (nv) and Williams (v) both at the Hoover Institution as the blackout period ends. Next week is on the light side for data, although set up for the refunding auctions (details below) will dictate trading conditions with a slew of Fed appearances in between: [Mon] Barkin (v), Williams (v), [Tues] Kashkari (nv), [Weds] Cook (v), [Fri] Goolsbee (v).

QRA: The Treasury left its nominal coupon auction sizes unchanged, as expected, where it is to sell USD 58bln of 3yr notes on May 7th, USD 42bln of 10yr notes on May 8th, and USD 25bln of 30yr bonds on May 9th. Furthermore, the Treasury said it does not anticipate needing to increase nominal coupon or FRN auction sizes for at least the next several quarters. That alleviated some concerns after the financing estimates released on Monday came in above expectations, although, as expected, any additional financing needs will be met with increased bill issuance. The TBAC minutes noted that Primary Dealers generally projected that nominal coupon auction sizes would remain unchanged through calendar year-end but that modest increases might be needed sometime in mid-2025 or 2026. Meanwhile, the Treasury announced its buyback operation schedule as expected, where it plans to conduct weekly Liquidity Support buybacks of up to USD 2bln per operation in nominal coupon securities and up to USD 500mln per operation in TIPS. These are designed to improve liquidity in off-the-run securities.

STIRS:

- Fed pricing now sees 35bps of cuts this year vs 30bps before Powell.
- SR3M4 +0.5bps at 94.695, U4 +3.5bps at 94.830, Z4 +7.5bps at 95.015, H5 +10bps at 95.21, M5 +11.5bps at 95.395, U5 +11.5bps at 95.56, Z5 +11bps at 95.68, H6 +10.5bps at 95.77, M6 +9.5bps at 95.825, M7 +8bps at 95.955, M8 +6.5bps at 95.945.
- SOFR at 5.34% (prev. 5.32%), volumes at USD 1.831tln (prev. 1.781tln).
- NY Fed RRP op demand at USD 0.438tln (prev. 0.534tln) across 69 counterparties (prev. 76).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 82bln (prev. 78bln).
- US sold USD 60bln of 17-week bills at 5.245%, covered 3.02x.

CRUDE

WTI (M4) SETTLED USD 2.93 LOWER AT 79.00/BBL; BRENT (N4) SETTLED USD 2.89 LOWER AT 83.44/BBL

The crude complex saw steep losses on Wednesday amid a surprise EIA crude build coupled with the prospect of a Middle East ceasefire agreement. As such, the former prompted downside in WTI and Brent and continued to trundle lower throughout the duration of the session and settle at lows. On the EIA's, and in fitting with the private inventory data on Tuesday, crude stocks saw a notable 7.265mn build (exp. -1.45mln), while Distillates drew slightly more than expected, and Gasoline a slight surprise build. Overall, refining utilisation fell 1% (exp. +0.5%) with crude production unchanged at 13.1mln. Regarding geopolitics, a Hamas official said the group is still studying a recent ceasefire offer, and as a reminder reports on Tuesday suggested Israel will wait until Wednesday night for Hamas' response to the proposal. Note, in wake of the Fed rate decision there was little reaction in oil, although persistent US inflation is dampening the expected pace of interest rate cuts and oil demand growth. Elsewhere, Energy Intel's Bakr said ADNOC boosted its official oil production capacity to 4.85mln BPD and the UAE is getting closer to its 5mln BPD target.

EQUITIES

CLOSES: SPX -0.34% at 5,018, NDX -0.70% at 17,318, DJIA +0.23% at 37,903, RUT +0.32% at 1,980.

SECTORS: Utilities +1.14%, Communication Services +0.83%, Materials +0.5%, Health +0.25%, Real Estate +0.12%, Financials -0.02%, Consumer Discretionary -0.02%, Industrials -0.21%, Consumer Staples -0.61%, Technology -1.26%, Energy -1.6%.

EARNINGS:

- **Amazon (AMZN)** +2.5%: Strong Q1 metrics, highlighted by EPS, revenue, and AWS sales all beating, but do note next quarter sales guidance was light.
- **Advanced Micro Devices (AMD)** -9%: In-line earnings while Q2 revenue guidance disappointed and investors were underwhelmed by how much AMD raised its AI chip sales forecast.
- **Starbucks (SBUX)** -16%: EPS and revenue missed with comp. sales surprisingly declined. Accompanying this, the commentary was downbeat with a disappointing FY24 outlook.
- **Estee Lauder (EL)** -12.5%: While past quarter metrics were strong, the next quarter and FY guidance were weak alongside downbeat commentary.
- **Super Micro (SMCI)** -14%: Top line missed, and desks note the huge cash consumption and the inability to generate cash is what sets SMCI unfavourably apart from others in the AI space.
- **Pinterest (PINS)** +21%: EPS, Revenue, adj. EBITDA, ARPU, and MAUs all surpassed St. expectations.
- **Pfizer (PFE)** +6.5%: Top and bottom line exceeded consensus in addition to raising its FY adj. EPS view.
- **CVS Health (CVS)** -17%: Disappointing report; EPS and revenue were light alongside slashing FY profit guidance.
- **New York Community Bank (NYCB)** +29%: Profit forecasts for the next two years beat estimates.
- **Marriott International (MAR)** -1%: EPS and Q2 outlook short, but lifted FY24 profit view.
- **Skyworks Solutions (SWKS)** -15.5%: Light next quarter guidance and said mobile business saw below normal seasonal trends, with lower-than-expected end market demand.
- **Yum Brands (YUM)** -4%: EPS and revenue light, with SSS pressured in the quarter, as expected.
- **Mastercard (MA)** -2%: Cut forecast for revenue growth for the year and spending on the payments giant’s network missed estimates.

STOCK SPECIFICS:

- **Google (GOOGL)** +0.5%: Slashed cost of AI-generated search by 80% and the success relieves worries that AI would hurt its search profit margins, according to The Information.
- **Exxon (XOM), Pioneer (PXD)**: XOM reportedly set to win FTC approval for PXD deal with settlement, according to Bloomberg
- **Micron (MU)** -2.5%: First to ship critical memory for AI data centers.
- **iRobot (IRBT)** flat: US House Committee probes FTC interactions with European Commission to block Amazon (AMZN) deal to buy iRobot (IRBT).
- **Banks**: US discusses finalizing bank capital rules as soon as August; Fed, FDIC, and OCC won't completely redo July 2023 proposal, according to Bloomberg.

US FX WRAP

The Dollar was lower in wake of the Federal Reserve rate decision and accompanying dovish Chair Powell press conference. In the initial announcement, the QT taper was larger than anticipated and Powell then essentially ruled out another hike. On rate cuts, the Chair does not know how long it will take before the Fed can cut, and added he does not have great confidence either way on whether there will be rate cuts this year. DXY printed a trough of 105.70, against an earlier session peak of 106.49. While the Fed was of course the main event, prior to this ADP (ahead of NFP on Friday) fell to 192k (prev. 208k) but above the expected 175k, while ISM Manufacturing headline fell back into contractionary territory, however prices paid soared. JOLTS showed demand for workers continuing to ease, with job openings falling to the lowest level in more than three years, and in addition the quits rate fell to its lowest since August 2020, pointing to slower wage growth in the months ahead. Looking ahead, the NFP report is due on Friday and is the next key risk event, with Goolsbee (2025 voter) and Williams also scheduled, albeit speaking at 19:45EDT/02:45BST and 20:15/03:15, respectively.

G10 peers saw gains across the board vs. the Buck in wake of the aforementioned Fed as Powell fed the doves, as opposed to anything currency specific. Nonetheless, Antipodeans outperformed and as they did prior to the FOMC, albeit it to a lesser extent. AUD/USD and NZD/USD hit highs of 0.6539 and 0.5939, respectively, against the earlier troughs of circa 0.6466 and 0.5875. Note, overnight Rabobank revised its RBA call and now sees hikes in August and November and no cuts in 2024 and 2025. For the Kiwi, job growth disappointed while the unemployment rate ticked up. RBNZ Deputy Governor Hawkesby said the employment data is confirmation of the trend the RBNZ were expecting to see, and higher interest rates will involve a cooling of the labour market.

The Euro saw little-to-no newsflow as Europe was away for Labour Day, although de Cos still hit the wires but added little new.

The Yen benefitted from the Dollar weakness, and as such USD/JPY hit a low of 157.01. For the Pound, UK Manufacturing PMI beat expectations, rising to 49.1 from 48.7, above the forecast for an unchanged print. Ahead, Swiss CPI and EZ Manufacturing PMI are on Thursday, accompanied by BoC’s Macklem/Rogers and ECB’s Lane.

EMFX was largely firmer vs. the Greenback, with CLP and TRY flat being the relative underperformers. Without sounding like a broken record, aside the Dollar weakness after Fed/Powell, there was little currency-specific as some markets were away for holidays, although the ZAR benefitted from spot gold recovering recent losses. With Brazil away there was no BRL trade, but Moody's did revise the outlook for Brazil to positive from stable, while affirming its Ba2 rating.