US Market Wrap

2nd May 2024: Stocks resume post FOMC bid as eyes turn to NFP

- **SNAPSHOT**: Equities up, Treasuries up, Crude flat, Dollar down.
- **REAR VIEW**: Hotter-than-expected Unit Labour Costs; Initial jobless claims slightly short of forecasts; Touted Yen intervention Wednesday night; Hot Swiss inflation data; Strong QCOM report; Light Q2 EBAY revenue guide; 'Positive' rhetoric in the Middle East hostage talks
- **COMING UP**: **Data**: Australian PMI, EZ Unemployment Rate, UK PMI, US NFP, PMI, ISM **Events**: Norges Bank Policy Announcement **Speakers**: Norges Bank Chair Bache **Earnings**: Intesa Sanpaolo, Societe Generale, Credit Agricole, Daimler Truck.

MARKET WRAP

Stocks trended higher on Thursday throughout overnight and the European session although a brief knock was seen in response to the hotter-than-expected Unit Labour Costs and beneath-forecast Initial Jobless Claims data as all eyes now turn to Friday's NFP and Apple (AAPL) earnings after hours. The data also sparked downside in Treasuries and upside in the Dollar but moves had started to pare throughout the rest of the US session. The upside in T-Notes appeared to be led by the front end with the 2yr taking out Wednesday post-FOMC highs while the upside in stocks was led by the Russell and the Nasdaq. However, both S&P and Dow notched decent gains also with broad-based gains seeing the majority of sectors close in the green, aside from Health care and Materials. In FX, the Yen and Franc outperformed with Yen still benefiting from the intervention Wednesday night as well as the dovish FOMC, while the Swissy was supported after hotter-than-expected inflation data. Antipodes and CAD also performed well on the risk environment. Crude prices ultimately settled flat, falling from peaks in the European morning to lows later on around optimistic updates on the ceasefire/hostage deal proposal with Hamas.

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INITIAL JOBLESS CLAIMS: Initial jobless claims were unchanged on the week at 208k with the prior revised up to 208k from 207k, despite expectations for a rise to 212k. The 4wk average fell to 210k from 213.5k The continued claims for the preceding week were also unchanged with the prior revised down to 1.774mln. The unadjusted data fell 14k to 189k and the seasonal factors had expected a decrease of 13k. Analysts at Pantheon Macroeconomics state the seasonal patterns were a bit more favorable for initial claims in the latest week compared to the prior, "so claims unchanged at 208K represents a trivial deterioration". Pantheon note the big picture remains that claims are very low given the late stage in the economic cycle, suggesting that many firms are still hoarding staff. The desk still "think the jobs market will look materially weaker very soon, paving the way for more Fed easing over the rest of this year than is currently expected by markets."

UNIT LABOUR COSTS: Unit Labour Costs were hot at 4.7%, above the Refinitiv forecast of 3.3% and the Bloomberg forecast of 4.0%, but within the wide range of forecasts between 1.4-6.4%. Productivity meanwhile missed, rising 0.3%, slowing from the prior revised up 3.5% and beneath the 0.8% forecast. The hot labour costs data and soft productivity data adds to the string of inflationary data seen throughout Q1; Fed Chair Powell said on Wednesday that if wage increases run higher than productivity, that would boost inflation. Nonetheless, wage data itself has been easing (from 4.5% in Jan to 4.1% in March; Friday's NFP report looks for wages at 4.0%), perhaps taking some of the sting out of this report. Looking into the report, manufacturing productivity increased 0.2%, while manufacturing labour costs rose by 3.2%. Analysts at Oxford Economics highlight that despite the largest increase in Unit Labour Costs over the last four quarters, it continues to trend lower on a Y/Y basis, pointing to slower growth in wages and inflation in the quarters ahead. The desk also highlights that productivity has been unusually volatile, but they expect it to edge lower as GDP growth slows modestly. OxEco also "think the most significant productivity gains from the adoption of artificial intelligence are still a little ways off."

INTERNATIONAL TRADE: The US international trade deficit marginally improved to USD 69.4bln in March from USD 69.5bln, albeit slightly deeper than the expected deficit of USD 69.1bln. In the details, nominal exports fell 2% M/M and all categories except autos, which was essentially flat, fell with the biggest declines in food (-8.2%), industrial supplies (-3%), and capital goods (-3.7%). In real terms, exports decreased a larger 3.2% M/M, with the benefit from higher oil prices removed from the calculation. Analysts at Oxford Economics note the March final trade report confirmed the details from Q1 GDP, as a larger decline in exports kept the goods and services trade balance wider relative to Q4 2023 levels. With consumer spending to remain elevated and inventory levels depleted, imports should continue to outpace exports, which will be dealing with a stronger dollar and weaker global demand.

NFP PREVIEW: The rate of payrolls growth is expected to slow in April, while wages are seen easing, and the unemployment rate is likely to be unchanged. Labour market proxies suggest a cooling in payrolls growth: weekly initial jobless claims were unchanged vs the comparable survey week in March, though continuing claims ticked up; manufacturing employment has been in contraction for seven straight months, according to the ISM, while S&P Global's PMI series notes weakness in services sector employment conditions. That said, the ADP's gauge of payrolls printed an upside surprise in April, though analysts remain sceptical about its predictive power for the official nonfarm payrolls report. It would take significant, unexpected weakness in the labour market to prompt Fed officials to become concerned, but a headline miss and cooling wage pressures could embolden rate cut bets, analysts say. To see the full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 8 TICKS HIGHER AT 108-11+

Treasuries steepened Thursday in the fallout from dovish Powell ahead of supply and NFP. At settlement, 2s -5.8 bps at 4.881%, 3s -5.1bps at 4.723%, 5s -4.1bps at 4.572%, 7s -3.0bps at 4.574%, 10s -1.4bps at 4.577%, 20s +0.4bps at 4.824%, 30s +1.3bps at 4.725%

INFLATION BREAKEVENS: 5yr BEI -1.2bps at 2.387%, 10yr BEI -1.2bps at 2.370%, 30yr BEI -0.5bps at 2.347%.

THE DAY: After peaking at 108-06+ during Powell's press conference on Wednesday, T-Notes pared to interim lows of 107-25+ during the APAC Thursday session with little catalysts aside from focus on the suspected Yen intervention. There was then a gradual recovery to interim peaks of 108-04+ during the London morning, with Bunds playing catchup after being closed on Wednesday.

The back end led a move lower during the NY morning, with set up for next week's supply in focus in addition to a hot-sided Unit Labor Costs figure and yet another stubbornly low jobless claims figure amid some fears over the labour market in survey data ahead of Friday's NFP. T-Notes eeked out session lows of 107-25 but failed to extend further with the short end remaining much better bid throughout in the fallout from Powell's dovish presser. Instead, contracts recovered into the NY afternoon, with short end contracts surging past their FOMC peaks. T-Notes ultimately peaked at 108-12 ahead of settlement. Note there were several steepening block trades throughout the session, with the steepening accentuated by multiple block buys in the short end.

Looking ahead, on Friday, we have the highlight in NFP, with S&P Services (final) and ISM Services also both due, 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).

NEXT WEEK'S AUCTIONS: The Treasury left its nominal coupon auction sizes unchanged for its quarterly refunding, as expected, where it is to sell USD 58bln of new issue 3yr notes on May 7th, USD 42bln of new issue 10yr notes on May 8th, and USD 25bln of new issue 30yr bonds on May 9th.

STIRS:

- SR3M4 +1.5bps at 94.710, U4 +3.5bps at 94.870, Z4 +5.0bps at 95.070, H5 +7.0bps at 95.290, M5 +8.0bps at 95.490, U5 +8.0bps at 95.660, Z5 +7.5bps at 95.780, H6 +7.0bps at 95.860, M6 +5.5bps at 95.905, M7 +2.5bps at 96.005, M8 +1.5bps at 95.985.
- SOFR at 5.32% (prev. 5.34%), volumes at USD 1.955tln (prev. 1.831tln).
- NY Fed RRP op demand at USD 0.429tln (prev. 0.438tln) across 70 counterparties (prev. 69).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 83bln (prev. 82bln).
- US sold USD 70bln of 1-month bills at 5.275%, covered 2.91x; sold USD 75bln of 2-month bills at 5.270%, covered 2.99x.
- US raised 42-day bill size to USD 75bln from 65bln, leaves 13-week and 26-week bill sizes both unchanged at 70bln each; 13- and 26-week bills sold on May 6th, 42-day on May 7th; all to settle on May 9th.

CRUDE

WTI (M4) SETTLED USD 0.05 LOWER AT 78.95/BBL; BRENT (N4) SETTLED USD 0.23 HIGHER AT 83.67/BBL

The crude complex was choppy on Thursday, albeit settling more-or-less flat, as the early European strength declined through the US afternoon amid 'positive' Middle East rhetoric. On the latter, Hamas said it is studying the cease-fire proposal with a "positive" spirit, which followed early reports from Al-Arabi Al-Jadid reports, citing Egyptian sources, that the contacts with Hamas and Israel have succeeded in resolving points that were in dispute, and that at the moment the dispute revolves around one issue. The Middle Eastern optimism saw WTI and Brent fall from highs of USD 79.90/bbl and 84.44/bbl, respectively, to troughs of 78.41/bbl and 83.05/bbl. Elsewhere, a Bloomberg Survey (according to 87% of respondents) stated OPEC+ is expected to extend output cuts into H2. After this, Reuters sources reported OPEC+ could extend voluntary oil cuts beyond Q2 but formal talks yet to start, with one source adding cuts could be extended until year-end. Looking ahead, NFP is on Friday with the weekly Baker Hughes rig count.

EQUITIES

CLOSES: SPX +0.91% at 5,064, NDX +1.29% at 17,541, DJIA +0.85% at 38,225, RUT +1.81% at 2,016.

SECTORS: Technology +1.64%, Consumer Discretionary +1.58%, Real Estate +1.38%, Communication Services +1.18%, Consumer Staples +0.8%, Industrials +0.56%, Utilities +0.51%, Energy +0.51%, Financials +0.23%, Health -0.11%, Materials -0.51%.

EUROPEAN CLOSES: DAX: -0.15% at 17,905.58, FTSE 100: +0.63% at 8,172.15, CAC 40: -0.88% at 7,914.65, Euro Stoxx 50: -0.63% at 4,890.35, IBEX 35: +0.16% at 10,872.00, FTSE MIB: -0.03% at 33,736.40, SMI: -0.46% at 11,209.63.

STOCK SPECIFICS:

- **Regeneron Pharmaceuticals (REGN)** +4%: Ended with gains amid upbeat risk sentiment despite initial weakness after top and bottom line were light and weighed on by weak Dupixent and Eylea sales.
- **Qualcomm (QCOM)** +9.5%: Strong release, unlike some of its peers such as Qorvo (QRVO); EPS and revenue beat, with next quarter midpoint guidance surpassing expectations.
- **eBay (EBAY)** -3.5%: Light Q2 top-line outlook.
- **Becton Dickinson and Co (BDX)** +3%: EPS beat alongside raising FY profit view.
- **Fastly (FSLY)** -32%: Q2 and FY outlook light, and the CEO said it was "not satisfied with our revenue growth outlook."
- **DoorDash (DASH)** -10.5%: Slightly deeper loss per share with the next quarter EBITDA midpoint short.
- **ETSY (ETSY)** -15%: All major metrics missed, albeit not massively, with next quarter gross merchandise sales forecasted to decline more than expected.
- **Carvana (CVNA)** +33.5%: Adj. EBITDA and revenue smashed through Wall St. consensus.
- **Shell (SHEL)** +1.5%: Adj. EBITDA and profit beat alongside announcing a new 3.5bln share buyback programme.
- **Paycom (PAYC)** -10.5%: Next quarter and FY outlook underwhelmed.
- **Cardinal Health (CAH)** +1%: Mixed report; revenue light as was FY25 EPS view, but the bottom line beat and raised FY24 outlook.
- **Zoetis (ZTS)** +5.5%: Strong report; EPS and revenue beat, alongside raising FY24 operational revenue growth and adj. net income outlook.
- **MGM Resorts (MGM)** +3%: Top and bottom surpassed expectations.
- **Freshworks (FRSH)** -19.5%: Cut FY revenue outlook and announced a CEO transition.
- **Paramount (PARA)** +13%: **Sony (SONY)** and **Apollo (APO)** reportedly express interest in buying Paramount for USD 26bln, according to NYT.
- **Nordstrom (JWN)** +6%: Sycamore partners reportedly among the PE firms looking to take Nordstrom private, according to Reuters citing sources.

US FX WRAP

The Dollar ultimately sold off on Thursday with the weakness post-Fed on Wednesday continuing ahead of NFP on Friday. The Buck did hit highs in wake of hot unit labour costs data, coinciding with yields at peaks. The move failed to sustain throughout the latter part of the session to see DXY pare from the 105.89 peak to a trough of 105.29.

The Yen was a clear outperformer with Reuters reporting that BoJ data suggests the BoJ did in fact intervene Wednesday evening post-Fed with across the two days seeing USD/JPY fall from a peak of 158.00 to a low on Thursday of 153.20. Data suggested the BoJ could have spent JPY 3.26-3.66tln on Wednesday, adding to the 5.1-5.26tln on Monday.

The Franc was also an outperformer on Thursday, primarily led by hot Swiss CPI data for April, which rose 1.4% Y/Y above the prior 1.0% and expected 1.1%. Core also accelerated to 1.2% from 1.0% prior. Although this is a hot report, it comes after a much cooler-than-expected print in March and chimes with the SNB's forecast from the March policy announcement that inflation will tick up incrementally across Q2 and Q3 to 1.4% and 1.5%, respectively.

The Euro saw mild gains thanks to the weaker Dollar with little news flow in Europe on Thursday other than a slight revision higher to the EU HCOB Manufacturing PMI data in April but technicians are eyeing 1.07 as a key support level given it also coincides with the 200dma.

The Pound was flat vs. the Dollar and the Euro with attention turning to next week's BoE rate decision with Cable trading either side of 1.25.

Antipodes were both bid thanks to the weaker Greenback and upside in US equities to see AUD/USD hit a peak of 0.6573 from a trough of 0.6516 while NZD/USD rose from 0.5915 to 0.5967.

The Loonie saw strength due to the cyclical nature of the currency with the weaker Dollar supporting the move as opposed to policy divergences from the BoC and Fed. BoC Governor Macklem acknowledged they are closer to being able to cut rates and data since January has increased confidence that inflation will come down gradually. He also added that there is a limit to how far US and Canadian interest rates can diverge, but they are certainly not close to that limit. He also reiterated the BoC could start cutting rates before inflation hits 2% as long as it is clear it is a sustainable decline.

EMFX was mixed with BRL surging on return from holiday after the outlook upgrade from Moody's on Wednesday. CLP also saw notable upside but MXN was flat with the COP posting slight gains. Elsewhere, CZK firmed against the Euro after the CNB cut rates by 50bps as expected, while Governor Michl said the majority of the board sees the neutral rate somewhat higher than 3%.