US Market Wrap

3rd May 2024: Soft NFP boosts stocks and bonds

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Soft jobs and wages data; Surprise Service ISM contraction, but Prices Paid surge; AAPL better than feared; Hawkish Bowman, in line Goolsbee; More Israel/Hamas ceasefire optimism; Nat Gas bid on force majeure; Norges bank leaves rates unchanged as expected.
- **WEEK AHEAD**: Highlights include RBA, BoE, BoJ SOO, ECB Minutes, UK GDP and Canada jobs. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing RBA, BoE, BoJ SOO, Riksbank, ECB Minutes; Reviewing FOMC, Norges Bank. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [MON] VRTX; [TUES] TDG, DIS, ANET, MCK, OXY; [WED] UBER, EMR, SHOP, ARM, ABNB; [THURS] CEG. To download the report, please click here.

MARKET WRAP

Stocks rallied further on Friday after softening US labour market data saw expectations of Fed policy easing increase. 175k jobs added (exp. 243k), the slowest pace since October last year, with a soft 0.2% M/M increase in AHE (exp. +0.3%), saw the amount of cuts priced ramp to 50bps at the extremes from 40bps before the data, although has since pared to c. 45bps, with some hawkish Fed Speak (Gooslbee and Bowman) and a mixed ISM Services that followed. A lot of the heavy lifting in stocks was done by big tech (NDX +2%, SPX +1.25%, RUT +0.8%) with AAPL surging 6%+ after its better-than-feared report and a USD 110bln buyback announcement taking the stock back above its 100d MA for the first time since mid-February. Meanwhile, small caps (RUT) and rate-sensitive names trimmed gains alongside Treasuries. The cash 10yr yield nose-dived to a low of 4.45% right after the NFP, but pared around half the move to the 4.50% level later in the session with eyes to next week's refunding auctions, in addition to the falling ISM Services offset by the spike in the Prices Paid component. The Dollar index was lower, but also closed well off extremes; antipodes outperformed amid their high beta to US stocks; USD/JPY hit troughs beneath 152, the lowest since early April. Spot gold closed flat at USD 2300/oz after gyrating between lows of USD 2280/oz and a post-data peak of USD 2320/oz. Oil prices were sold into the close, with the softening labour market data weighing on the demand outlook while there continues to be constructive reporting around an Israel/Hamas ceasefire, albeit nothing has been agreed upon just yet.

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NFP: The US Jobs Report in April was a dovish one, confirming the weakening survey data. Headline NFP eased to 175k from the 315k prior, falling short of the 243k estimate with -22k two-month net revisions. The 175k jobs added is the lowest since October 2023's 150k, and also the first time since then that NFP fell short of expectations. The unemployment rate ticked up to 3.9% from 3.8%, despite expectations for an unchanged print while the labour force participation rate remained steady at 62.7%. Earnings were also soft, M/M rose 0.20% despite expectations for a 0.3% print again while the Y/Y dipped to 3.9% from 4.1%, deeper than the 4.0% consensus and the first time under 4% since June 2021. WSJ's Timiraos says this will not change much for the Fed as there's another jobs report before their next meeting, the Fed is more focused on inflation data, and it does not show an "unexpected" weakness in the labour market. Fed Chair Powell said on Wednesday that "A couple tenths" of an increase in the unemployment rate doesn't count as an "unexpected weakening" in the labour market that would justify cuts. This implies a further weakening of the labour market is needed for the Fed to cut rates, unless inflation starts to sustainably return to 2%, but after the Q1 inflation data, the Fed does not yet have that confidence. Nonetheless, this report does add support to the case for rate cuts this year, with markets now pricing in almost two rate cuts this year; almost fully priced in for September and December. By itself, a slightly softer NFP is not a cause for concern, particularly after some of the massive strength seen recently, but given some of the red flags seen in the survey data, it will open up the question of whether this may be the start of a string of downside numbers. At the same time, the more timely weekly jobless claims figures are running particularly low still in the low 200k's, indicative of no material slowdown.

ISM SERVICES: ISM Services surprisingly fell back into contractionary territory for the first time since December 2022, as the headline printed 49.4 (exp. 52.0, prev. 51.4) and outside the bottom end of the forecast range of 50.5. Internally, the inflationary gauge of prices paid surged to 59.2 from 53.4, and business activity slumped to 50.9 from 57.4. Employment and new orders dipped to 45.9 (prev. 48.5) and 52.2 (prev. 54.4), respectively. Within the release, it notes “survey respondents indicated that overall business is generally slowing, with rates varying by company and industry.

The majority of respondents indicate that inflation and geopolitical issues remain concerns." Nonetheless, Oxford Economics note they are not overly concerned by the rough patch and expect much of the weakness exhibited in Q1 GDP growth to be made up Q2. The consultancy adds, consumer spending will continue to grow thanks to a supportive labour market and keep the economy ticking along. Within the report, sticky inflation, higher subsequent interest rates, and geopolitical tensions are weighing panelists, with increased business uncertainty leading to more negative responses. However, and as OxEco points out, these risks should subside over the balance of the year and lead to more positive assessments of the business environment.

FED'S BOWMAN: The outspoken hawk said her baseline outlook continues to be that inflation will decline further with the policy rate held steady, but she remains willing to raise FFR at a future meeting should data show progress on inflation has stalled or reversed - note that Chair Powell had said it is unlikely the next move will be a hike. Bowman still sees a number of upside inflation risks to her outlook and she will continue to watch data closely to assess appropriate monetary policy, noting that the current monpol stance appears to be restrictive. She acknowledged it is unclear whether further supply-side improvements will continue to lower inflation. She also noted it is a strong risk that consumer demand, more immigration, and a tight labour market could lead to persistently high core services inflation. Adding that an inflow of new immigrants to some areas that lack affordable housing could push up rents - Powell stressed that he is expecting lower rent prices to feed into lower inflation ahead, but it is taking longer than expected. Bowman also said that geopolitical developments are also an upside risk to inflation. She also warned that there is a risk of loosening financial conditions and fiscal stimulus could juice demand, stalling and even reversing inflation progress. Bowman noted she will remain cautious in her approach to deciding future changes to policy stance and that she expects inflation to remain elevated for some time. She noted the recent inflation pickup evident across many goods and service categories and that recent employment reports show a continued tight labour market.

FED'S GOOLSBEE: The Chicago Fed President spoke after the jobs report in a Bloomberg interview, noting 175k new jobs is a very solid report. Goolsbee said there was a bump in inflation at the start of the year and that the Fed needs to take a step back and see how this bump evolves. He said he needs comfort that the bump in inflation is not a sign of a re-acceleration and he needs to get more comfort on whether the Fed remains on a path to lower inflation. On the labour market, he said the more jobs reports that look like the pre-COVID period, the more confidence there is that the economy is not overheating. He said job market developments need to be re-normalized based on higher immigration estimates, noting he is still attempting to analyze this. He said that when the business cycle turns it is "not subtle" with credit deteriorating and unemployment increasing, but this has not been seen yet. He also stated the Fed did not have an advanced look at the jobs numbers during the FOMC meeting. On policy, Goolsbee was non-committal on the next and further policy meetings, noting monetary policy is currently restrictive; said real FFR is as high as it has been in decades. He warned that If the Fed are restrictive like this for too long, it will have to begin thinking about the employment side of the mandate, but described current numbers as "solid". When asked about a hike, he said he never puts anything on/off the table and attempts to be as paranoid as possible about all the eventualities.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLE 16 TICKS HIGHER AT 108-27+

Treasuries spiked Friday, with the belly outperforming, after soft NFP and wage figures were followed by falling ISM, albeit rising Prices Paid. 2s -5.9bps at 4.818%, 3s -6.9bps at 4.648%, 5s -7.6bps at 4.491%, 7s -7.0bps at 4.497%, 10s -6.5bps at 4.506%, 20s -5.8bps at 4.760%, 30s -5.3bps at 4.665%.

INFLATION BREAKEVENS: 5yr BEI -2.3bps at 2.362%, 10yr BEI -1bp at 2.359%, 30yr BEI +0.3bps at 2.353%.

THE DAY: After rallying on Thursday, Treasuries traded sideways and in a tight range through the APAC Friday session and into the London morning. T-Notes hit a session low of 108-06 at the London handover before gradually rising into the US session. There were no major catalysts during European trade with the data highlight being the EU unemployment rate (unchanged at 6.5% in March, as expected), with traders instead front-running NFP amid concerns of a weaker print given some of the disappointing proxy data heading into the report. Those concerns proved prescient.

The BLS report saw 175k jobs added (exp. 243k) in April, the lowest pace since October last year, with the U rate rising to 3.9% from 3.8% (exp. 3.8%), and crucially, the average hourly earnings rising at a lower 0.2% M/M pace (exp. +0.3%), offsetting some of the wage concerns in the Q1 ECI earlier in the week. T-Notes spiked from 108-14 to 109-09+ in an immediate reaction, which marked the peaks of the session.

After a heavy run-up in the past few sessions since the FOMC, there was a notable amount of profit taking straight after the print, led by the back end, especially with eyes to next week's refunding auctions. Two-way flows were seen after the ISM Services (with declining activity offset by a spike in the Prices Paid component), although T-Notes went on to print post-data lows of 108-18+ later in the NY morning, not quite closing the NFP gap, albeit ZB and UB contracts did. Once

Europe cleared out, and a seeming passing of auction set up flows, the long end led a recovery higher again into the NY afternoon, with T-Notes settling up at the 50% retracement of the NFP spike (108-27+), which had served as both support on the way down and resistance on the way back up.

Looking ahead, we have some late appearances from Fed's Goolsbee (nv) and Williams (v) still on Friday both at the Hoover Institution as the blackout period ends. Next week is on the light side for data, leaving the NFP data, FOMC, and ISMs to fester on people's minds, although set up for the refunding auctions (details below) will also 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 flat at 94.715, U4 +4bps at 94.915, Z4 +7bps at 95.15, H5 +10bps at 95.40, M5 +11bps at 95.61, U5 +11bps at 95.78, Z5 +11bps at 95.895, H6 +10bps at 95.965, M6 +9.5bps at 96.005, M7 +9bps at 96.10, M8 +8bps at 96.07.
- SOFR at 5.31% (prev. 5.32%), volumes at USD 1.838tln (prev. 1.955tln).
- NY Fed RRP op demand at USD 0.450tln (prev. 0.429tln) across 70 counterparties (prev. 70).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 83bln (prev. 83bln).

CRUDE

WTI (M4) SETTLES USD 0.84 LOWER AT 78.11/BBL; BRENT (N4) SETTLES USD 0.71 LOWER AT 82.96/BBL

Oil prices were lower on Friday as softening US labour market data dented the demand outlook despite the benefit of the softer Dollar. WTI (M4) and Brent (N4) futures saw two-way chop on the data, hitting peaks of USD 79.63 /bbl and 84.39/bbl before reversing lower with contracts settling at session lows. Energy sector catalysts were on the light side although there was plenty of fresh reporting around Israel/Hamas, with talks ongoing between the two sides albeit nothing appears definitive at this stage despite some of the optimism. At the same time, there has been concurrent reports, via Politico, that the Israeli military has informed aid groups and the Biden administration of a plan to begin removing Gazans from Rafah ahead of an invasion. That followed WSJ reports that Israel has given Hamas a one-week deadline to agree on a cease-fire deal or they will commence the Rafah operation. Elsewhere, in the US, the weekly Baker Hughes rig count saw oil rigs down seven at 499, nat gas rigs down three at 102, and total rigs down eight at 605. Note that US Nat Gas futures saw a strong bid in the US session, coming amid the Natural Gas Pipeline Co. declaring a force majeure near compressor station 302 in Montgomery County, Texas.

EQUITIES

CLOSES: SPX +1.26% at 5,128, NDX +1.99% at 17,891, DJI +1.18% at 38,676, RUT +0.97% at 2,036.

SECTORS: Technology +3.01%, Communication Services +1.02%, Materials +1%, Utilities +0.86%, Real Estate +0.82%, Consumer Discretionary +0.71%, Industrials +0.7%, Consumer Staples +0.33%, Financials +0.31%, Health +0.23%, Energy -0.05%.

EUROPEAN CLOSES: DAX: +0.54% at 17,993.69, FTSE 100: +0.51% at 8,213.49, CAC 40: +0.54% at 7,957.57, Euro Stoxx 50: +0.63% at 4,920.95, IBEX 35: -0.16% at 10,854.70, FTSE MIB: -0.32% at 33,629.21, SMI: +0.62% at 11,279.60.

- **Apple (AAPL) +6%**: EPS and revenue topped consensus accompanied by a record USD 110bln share buyback programme and lifting quarterly dividend 4%. On AI, said it is making significant investments and looking forward to an exciting product announcement next week, and the WWDC next month.
- **Motorola Solutions (MSI) +5%**: Profit and revenue beat alongside lifting FY outlook.
- **Booking Holdings (BKNG) +3%**: Top and bottom line surpassed Wall St. expectations.
- **Expedia (EXPE) -15%**: Said recent VBRO re-platforming has been slower than anticipated, putting pressure on gross bookings and as such it is lowering top line growth guidance.
- **Amgen (AMGN) +12%**: EPS and revenue beat alongside announcing it would proceed with its injectable obesity drug into a phase 3 trial.
- **DraftKings (DKNG) -2.8%**: Q1 metrics disappointed, but the FY outlook impressed.

- **Monster Beverage (MNST) +3%**: While Q1 metrics were more-or-less in line, it announced a USD 3bln share buyback programme.
- **Block (SQ) -1%**: Strong report; EPS and revenue surpassed expectations alongside lifting outlook.
- **Fluor (FLR) -6%**: Q1 metrics were light and said it is not providing forward guidance.
- **Hershey (HSY) +1%**: EPS, revenue, and sales at organic constant FX all exceeded St. consensus.
- **Paramount Global (PARA) -7%**: Skydance's proposed deal With Paramount Global (PARA) appears to be falling apart, according to Variety; adding that neither the Sony (SONY) / Apollo (APO) deal or Skydance / RedBird deal are in play.
- **Occidental (OXY) -**0.4%: Explores sale of Permian assets worth over USD 1bln, according to Reuters sources.

US FX WRAP

The Dollar was sold on Friday in response to the dovish NFP report which saw a miss on the headline NFP with unemployment ticking higher while wages were also softer than forecast. The data saw DXY hit a low of 104.52 from a peak of 104.37 pre-data but the index managed to reclaim 105.00 as it gradually pared throughout the session. Some of the revival likely was supported by the hotter than expected Prices Paid data in the services ISM report, although similar to the manufacturing release, the headline disappointed expectations and it slipped sub 50. A hawkish Bowman set of remarks likely also gave some support to the buck who continues to note she remains willing to hike the FFR at a future meeting should data show progress on inflation has stalled. It is also worth noting that WSJ's Timiraos highlights that the NFP report will not change much for the Fed as there is still another report before their next meeting, the Fed is more focused on inflation data and that it does not show an "unexpected" weakening of the labour market.

Elsewhere, it was mainly a Dollar story with the **Euro** bid thanks to the weaker buck while the **Yen** also saw continued strength given the prospects of a more dovish Fed helping narrow policy differentials with the BoJ. Japan was away for a holiday but there were remarks from Japan's Finance Minister Suzuki, who said he will not comment on FX levels but it is desirable for FX to move stably and that high volatility in FX is undesirable, noting rapid moves are undesirable as they would hurt households and companies.

The Franc added to its prior day's gains after the hot CPI with the soft US NFP only supporting the move further amid US yields lower across the curve. Gold prices, however, despite initially rallying to the NFP data, swiftly reversed to a trough of USD 2,277 but ultimately pared to around USD 2,300/oz in what was very erratic price action.

The antipodes outperformed on the improved risk appetite after the US data as well as a strong Apple (AAPL) earnings report to see AUD reclaim 0.6600 to the upside while NZD/USD reclaimed 0.6000 thanks to the weaker greenback with both crosses finding resistance around 50 pips above the round levels.

The Looney was flat by the end of the session with weaker oil prices offsetting the cyclical benefit of the CAD with eyes turning to the Canadian jobs report next week.

The Pound only saw a mild gain vs the Dollar and was softer vs the Euro with the Pound unreactive to upward revisions to the final PMI data. Attention on next Thursday's BoE and how the vote split will fall, followed by GDP data on the Friday.

NOK was bid vs the Euro and the Dollar after Norges Bank left rates on hold as expected but it added a line that "The data so far could suggest that a tight monetary policy stance may be needed for somewhat longer than previously envisaged."

EMFX was generally bid thanks to the weaker Dollar but the MXN was relatively flat with signs of a slowing US economy keeping limiting the Peso bid given its exposure to the US. CLP also saw decent gains although the COP was the laggard and was softer vs the Dollar due to weaker oil prices. ZAR also saw gains but the TRY was flat.