



# US Market Wrap

## 6th May 2024: Stocks add to post NFP gains while oil chops to geopolitics

- **SNAPSHOT:** Equities up, Treasuries flat, Crude up, Dollar flat.
- **REAR VIEW:** Hamas accepts ceasefire proposal, Israel not in agreement, to continue with Rafah op; mixed Fed speak; KO issuance; Final EU PMIs revised up; China Caixin Services PMI in line; FAA opens up new BA investigation.
- **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:** [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 Monday with continued momentum from the soft NFP data on Friday that has increased the chances of the Fed being able to cut this year. The rate-sensitive small-caps saw outperformance, indicative of the appetite for duration, which will be tested at this week's refunding auctions. The technical setup has improved for stocks too with analysts flagging the lower implied volatility and resumption of share buybacks with little major data catalysts this week to knock off sentiment. Treasuries were choppy within post-NFP ranges with no major catalysts ahead of refunding auctions; note Japan and UK were both absent on Monday. The Dollar pared initial weakness, choppy with yields. Fed voters Williams and Barkin gave familiar rhetoric, while the Fed's SLOOS survey showed a continued tightening in bank lending, but not at an alarming rate. Oil prices were choppy after the ceasefire agreement statement from Hamas was refuted by Israel, but there appears to be at least something new to work with for the two sides after the breakdown from the weekend, whilst in the meantime, Israel has reaffirmed it will go ahead with the Rafah invasion if it does not get its hostages.

## FED

**BARKIN** (2024 voter, hawkish) said that inflation data this year is "disappointing...job is not yet done"; he is confident that the current restrictive level of rates can curb demand enough to bring inflation to target. He does not see the economy overheating, but the Fed knows how to respond if it does. The data "whiplash" confirms the value of the Fed being deliberate. Given the strong labour market, the Fed has time to gain confidence it needs to be sure inflation will fall. Businesses are still looking to raise prices if they can; noting there is a risk that shelter and services keeps the headline index above target. Barkin said that he still feels like the weight of risks is towards inflation, noting the recent data makes you think less optimistically about how quickly inflation gets under control; "it is a stubborn road". He has not yet seen evidence that inflation is on track. He tends to imagine the Fed will need to take some edge off demand to finish the inflation fight, though some help from supply is still possible. He added that metrics of where the neutral rate is have moved up, but it feels like current policy is restrictive and he is at this point willing to believe rates are restrictive enough. Barkin also noted that GDP growth still seems strong, but there is focused attention now on the job market.

**WILLIAMS** (voter) is seeing job growth moderate, saying he is looking at the totality of economic data. The NY Fed President said that "eventually" there will be rate cuts, but noted the balance sheet wind down has gone smoothly and it hasn't affected markets. Williams stated that consumers are still spending and he sees GDP 2-2.5% this year (vs Fed 2024 Median of 2.1%). He also noted that real wages are improving but he is seeing signs of more consumer caution on spending. Williams said the economy is still healthy, but it is growing more slowly. He also stated the Russian war on Ukraine has been a big event for the global economy; inflation would have retreated more swiftly absent a Russian war. He added that a low volatility world may be behind us.

## FIXED INCOME

**T-NOTE (M4) FUTURES SETTLE 1 TICK HIGHER AT 108-28+**



Treasuries were choppy in post-NFP ranges with no major data ahead of refunding auctions. 2s +2.4bps at 4.831%, 3s +1.2bps at 4.646%, 5s +0.1bps at 4.483%, 7s -0.7bps at 4.481%, 10s -1.5bps at 4.485%, 20s -2.1bps at 4.735%, 30s -2.2bps at 4.639%.

**INFLATION BREAKEVENS:** 5yr BEI -0.9bps at 2.358%, 10yr BEI -1.1bps at 2.354%, 30yr BEI -0.6bps at 2.352%.

**THE DAY:** Treasuries were directionless during APAC trade on Monday, with Japan away before finding a bid in the European morning amid mixed EU PMIs; note London was away for bank holiday, suppressing trading volume further. T-Notes were supported at 108-23. The back end led strength into the NY handover, with Ultra Bonds just breaching past their post-NFP peaks, although the front and belly did not get close.

T-Notes stretched out a session peak of 109-01+ in the NY morning (vs post-NFP peak of 109-09+), despite coming on the heels of some fresh corporate debt deals, including a long end heavy three-parter (10yr, 30yr, 40yr) from Coca Cola. However, better selling kicked in later in the NY morning in the absence of an obvious catalyst where T-Notes hit interim lows of 108-24, accentuated by a block 15k seller, with the APAC low of 108-23 holding firm, ahead of the post-NFP low of 108-18+ before the pre-NFP level of 108-14. Contacts remained rangebound from there with Fed voters Barkin and Williams both giving some remarks to little reaction, with the former a bit more hawkish than the latter.

Newsflow and data were on the light side ahead of this week's supply where expectations are growing for some strong showings with the NFP print last Friday having reduced the right-sided tail of the policy and Treasury outlook (i.e. more hikes and retesting cycle peaks in yields). CPI will be key (as ever) on May 15th.

Looking ahead, the week is on the light side for data, leaving last week's NFP, FOMC, and ISMs to fester on 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] Jefferson (v), Collins (nv), Cook (v), [Thurs] Daly (v), [Fri] Bowman (v), Logan (nv), Goolsbee (v), Barr (v).

**THIS 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 -0.5bps at 94.71, U4 -1.5bps at 94.90, Z4 -3bps at 95.125, H5 -3.5bps at 95.37, M5 -3.5bps at 95.585, U5 -3bps at 95.76, Z5 -2.5bps at 95.875, H6 -1.5bps at 95.955, M6 -1bps at 96.005, M7 +0.5bps at 96.11, M8 +1bp at 96.09.
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.863tln (prev. 1.838tln).
- NY Fed RRP op demand at USD 0.469tln (prev. 0.450tln) across 67 counterparties (prev. 70).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 82bln (prev. 83bln).
- US sold USD 76bln of 3-month bills at 5.250%, covered 2.72x; sold USD 76bln of 6-month bills at 5.155%, covered 2.91x

## CRUDE

**WTI (M4) SETTLES USD 0.37 HIGHER AT 78.48/BBL; BRENT (N4) SETTLES USD 0.37 HIGHER AT 83.33/BBL**

Oil prices were choppy on Monday after initial gains were pared on ceasefire headlines. WTI and Brent peaked at USD 79.09/bbl and 83.83/bbl, respectively, in the European morning, chopping sideways until the NY afternoon where some kneejerk downside was seen on headlines that Hamas had agreed to the Egyptian and Qatari ceasefire agreement, hitting lows of USD 77.91/bbl and 82.77/bbl, respectively. Some of the downside was then faded into settlement with reports from the Israeli side coming out and downplaying the Hamas statement, saying the deal had been adjusted against Israel's wanted format and that they are still planning for a Rafah invasion. Nonetheless, the crude benchmarks are lower than where they were and Reuters reported later, citing an official briefed on talks, that there were no changes to the major elements, which is perhaps an indication that the difference is narrowing.

## EQUITIES

**CLOSES:** SPX +1.03% at 5,181, NDX +1.13% at 18,094, DJI +0.46% at 38,852, RUT +1.23% at 2,061.



**SECTORS:** Technology +1.48%, Communication Services +1.39%, Financials +1.17%, Consumer Discretionary +1.06%, Industrials +1%, Energy +0.82%, Materials +0.63%, Utilities +0.45%, Health +0.44%, Consumer Staples +0.08%, Real Estate -0.02%.

**EUROPEAN CLOSES:** DAX: +0.95% at 18,171.91, CAC 40: +0.49% at 7,996.64, Euro Stoxx 50: +0.71% at 4,956.65, IBEX 35: +0.58% at 10,917.50, FTSE MIB: +1.06% at 33,986.90, SMI: +0.49% at 11,328.70

## STOCK SPECIFICS

- **Apple (AAPL)** -0.9%: Berkshire Hathaway decreased its substantial Apple stake in Q1, now valued at USD 135.4 bln, a 13% reduction.
- **Perficient (PRFT)** +52%: To be acquired by EQT in all-cash deal valued at around USD 3bln or USD 76/shr. PRFT closed Friday at USD 48.11/shr.
- **Micron (MU)** +4.5%: Upgraded at Baird. The firm also added the shares to its list of top semiconductor ideas and it sees "meaningful upside opportunities ahead" for Micron.
- **US Steel (X)** +4%: EU on Monday approved the USD 14bln takeover of US Steel by Japan's Nippon Steel.
- **Tyson Foods (TSN)** -5.5%: Revenue missed and in post-earnings commentary said persistent inflation weighing on some consumers and Q3 could be weaker than Q4.
- **Berkshire Hathaway (BRK.B)** +1%: Revenue, profit, and operating profit all beat, with the latter surging 39% Y/Y.
- **Vistra (VST)** +2%: Will replace Pioneer Natural Resources (PXD) in the S&P 500 after being acquired by ExxonMobil (XOM).
- **Microsoft (MSFT)** +1.7%: Reportedly preparing a new AI model to compete with Google (GOOG) and Open AI, according to The Information.
- **Intel (INTC)** +0.5%: Will partner with 14 Japanese companies to develop technology to automate "back-end" chipmaking processes like packaging, according to Nikkei.
- **Tesla (TSLA)** +2%: Launches another round of layoffs across several departments including software, service, and engineering, according to Electrek.
- **Boeing (BA)** -0.8%: FAA opens new investigation into Boeing (BA) related to the its inspections of its 787 Dreamliner and whether company employees falsified records, according to WSJ.

## US FX WRAP

**The Dollar** was relatively flat on Monday with DXY hitting a low of 104.86 in the US morning but it pared from lows amidst mixed Fed speak and geopolitical updates. On the former, Barkin (voter) stressed the job is not done yet. Williams acknowledged that job growth is moderating and that he is looking at the totality of economic data. Meanwhile, Barkin said he still feels like the weight of risks is moving towards inflation. He also said that GDP growth still seems strong and that there is now focused attention on the job market. On the Middle East, Hamas announced they have accepted the latest ceasefire proposal but Israel sees the deal as unacceptable, but it has sent some negotiators to Cairo. DXY reclaimed 105.00 and sits just above it heading into APAC trade.

**The Euro** saw a slight bid with EUR/USD finding resistance just shy of 1.0800 at 1.0790. Out of Europe, ECB's Lane said that the April slowdown in services inflation marks significant progress and that confidence on inflation is improving, he also noted that exaggerating the impact of ECB and Fed divergence is not necessary and Fed decisions have limited impact in the euro area. ECB's Simkus meanwhile said last week's GDP and inflation data were as expected and has not changed his thinking, noting the ECB can afford to reduce restrictions. Vujic said that incoming so far is consistent with projections and he expects a loosening of the policy stance but it will still be restrictive. On data, the Final EU HCOB services PMI was revised up to 53.3 from 52.9 with the composite rising to 51.7 from 51.4, despite expectations for both to be left unchanged.

**The Yen** was weaker vs the buck with USD/JPY finding resistance at 154.00, failing to breach above the level albeit USD/JPY still remains well beneath the 160.00 peak seen last week before the dovish FOMC and suspected Japanese intervention. Elsewhere, the Franc was flat vs the Dollar and softer vs the Euro while gold prices saw a decent bid. Note that there may be some added geopolitical risk premium after the Russian Foreign Ministry said it considers the UK Foreign Minister's statement as evidence of a serious escalation, saying Russia could target British facilities on or off Ukrainian territory in response to Ukrainian strikes with British weapons

**Cyclical currencies** enjoyed the upside in US equities with AUD and CAD outperforming while GBP also saw mild gains but UK players were away for the Bank Holiday. NZD was a relative laggard however and was flat vs the buck but it still sits just above 0.6000. Attention after hours looks to the RBA rate decision, Newsquawk preview here.



**The Yuan (CNY)** was bid during APAC trade but offshore Yuan sold off vs the Buck later on. Note that the Caixin Composite PMI rose to 52.8 from 52.7 with the services dipping slightly to 52.5 from 52.7, in line with expectations.

**EMFX** was mixed. BRL was flat but MXN saw gains. Note that Brazil data posted a primary budget surplus in March of BRL 1.777bln despite expectations for a 1.55bln deficit; with the debt/GDP ratios falling slightly short of expectations but ticking up slightly from the prior. Elsewhere, the TRY saw gains vs the buck after S&P upgraded Turkey to B+ on economic rebalancing, with a positive outlook. CLP and COP also saw gains.

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