US Market Wrap

9th May 2024: Surge in jobless claims boosts stocks and bonds

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Big rise in IJC; Dovish BoE; Daly echoes Powell on labour market and policy; Strong 30yr auction; No Israel/Hamas ceasefire/hostage deal.
- **COMING UP**: **Data**: Japanese Household Spending, UK GDP, Services, Manufacturing Output, Italian Industrial Output, Canadian Jobs Data, BoC SLOOS, Chinese Money Supply **Speakers**: ECB's Cipollone, Elderson; BoE's Pill; Fed's Goolsbee, Bowman, Logan, Kashkari, Barr **Supply**: Japan & Italy

MARKET WRAP

Stocks were largely firmer in another very light trading session on Thursday, typical of the whole week. The rise in jobless claims to the highest level since August 2023 led to a dovish reaction across assets, with stocks sustaining strength through the session with outperformance in the small caps Russell 2k index, with Nasdaq 100 underperforming. Tech, and particularly semiconductors (NVDA -1.8%), were an area of weakness, while most other sectors saw gains. Treasuries rallied after rising jobless claims and a solid 30yr auction, with 10yr yields closing down 2.5bps at 4.46%. The Dollar was sold with outperformance in antipodeans, while Sterling also saw strength amid short covering despite the dovish BoE, which left rates unchanged but saw two dovish dissenters while Bailey talked up the likelihood of cuts in the "quarters" ahead. The softer Dollar saw commodities all trade firmer, particularly metals with spot gold up 1.6%, while oil saw more tepid gains with the complex struggling to recover after the last few weeks of selling.

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JOBLESS CLAIMS: Initial Jobless Claims for the week ending 4th May shot up to 231k from 209k in the prior week, above the consensus of 215k and above the top end of the forecast range where the largest estimate looked for 220k. It is also the highest Initial Jobless Claims print since August of 2023, and the largest weekly increase since January (weather related), but before that it would be the largest increase since June last year. Note, the 4 week average rose to 215k from 210k. Continued Claims for the week ending April 27th rose to 1.785mln from 1.768mln, in line with analyst forecasts. The unadjusted data for initial claims rose 20k to 209k, while seasonal factors had only expected a decrease of 1k. Note that a big rise in New York claims were behind the increase, which some suggest are seasonal factors that may unwind in the weeks ahead. More broadly, many analysts have been calling for a rise in jobless claims and although this is only one jobless claims report, it does chime with several weak labour market updates seen recently, including the softer than expected NFP, fall in JOLTS, while the S&P PMI said "The more challenging business environment prompted companies to cut payroll numbers at a rate not seen since the global financial crisis if the early pandemic lockdown months are excluded." The Fed have acknowledged that an unexpected weakening of the labour market would justify rate cuts if inflation is not yet heading to 2% in a sustainable manner, and although we are still some way off an "unexpected weakening", the labour market is clearly showing signs of slowing down, whether this was a head-fake print or not.

FED'S DALY (2024 voter) noted Q1 inflation data has left considerable uncertainty about the next few months of inflation, she acknowledged that policy is restrictive but it may still take time to bring inflation down. She echoed Powell in noting that if the labour market were to falter in a fundamental way, policy action would be needed. However, she said right now there is no evidence that the labour market is approaching a worrisome position. Daly said the Fed is facing a range of scenarios right now and she is getting different signals from firms who say the consumer seems to be getting choosy but input prices are not yet declining. She also touched on the framework review, noting questions will include whether the Fed will be fighting inflation from below target or above. Other issues for the framework review will likely be neutral level of rates, probability of hitting the zero lower bound on rates and the path of potential output.

CENTRAL BANKS

BOE REVIEW: As expected, the BoE opted to keep rates unchanged at 5.25%. The main surprise for the release came via Ramsden joining Dhingra in voting for a rate cut, making the vote split 7-2. Within the policy statement, the MPC repeated guidance that "policy needs to be restrictive for an extended period of time until the risk of inflation becoming embedded above the 2% target dissipates". Furthermore, it was reiterated that the committee "will keep under review for how long Bank Rate should be maintained at its current level" and the policy stance "could remain restrictive even if the Bank Rate were cut". In terms of progress on inflation, the statement noted that progress seen in key economic data is encouraging, but the BoE is not yet at the point of cutting interest rates, adding it wished to see more evidence that inflation will stay low first. For the accompanying MPR projections, CPI is expected to return to target in Q2 (in-fitting with the February MPR), with the 2024-2026 inflation profile lowered and 2024-2026 growth outlook raised. At the follow-up press conference, Governor Bailey noted that the MPC is not yet at the point for rate cuts, however, the Bank will be armed with more data by the time of the June meeting. Bailey went on to state that the MPC will need to lower rates in the coming quarters and rates may need to be cut by more than currently priced in by the market. Furthermore, even if the MPC was to lower rates by 25bps, they would still be in restrictive territory. Overall, the main dovish surprise came via Ramsden joining Dhingra in voting for a cut. This carries extra significance given that he is one of the internal members of the MPC who tend to vote together. Bailey noted that rate cuts are coming but data between now and June which will determine whether the Bank Rate is lowered next month. Market pricing for June remains at a near-enough coinflip with a total of 56bps of easing seen by year-end vs. around 53bps pre-announcement.

BCB REVIEW: The BCB cut rates by 25bps, in line with the majority of forecasters but disappointing those expecting the BCB to follow suit to its guidance and cut rates by 50bps. However, it was still a close call within the BCB which saw a 5-4 vote split, with the four dissenters being the recent appointees by President Lula, who has been pushing for lower interest rates. Reuters also highlighted that Gabriel Galipolo was one to vote for a 50bp cut, and he is seen as a frontrunner to run the BCB once Neto's term expires in December. Elsewhere within the report, it ditched guidance that the BCB expects a similar magnitude move at the next meeting, and instead noted "that the extent and adequacy of future changes in the interest rate will be determined by the firm commitment to reaching the inflation target in the relevant horizon". The Copom's also lifted its inflation projections, seeing 3.8% for 2024 (prev. 3.5%), and 3.3% for 2025 (prev. 3.2%). Inflation projections for administered prices are now seen 4.8% for 2024 (prev. 4.4%), and 4.0% for 2025 (prev. 3.9%). Looking ahead, analysts at Pantheon Macroeconomics write this update suggests that policymakers will continue to cut rates by 25bps at coming meetings before ending the year at 9%, but the desk cannot rule out the possibility the BCB may opt to pause it's easing cycle if the fiscal situation deteriorates further and or/if the Fed delays its rate cuts beyond September.

BANXICO REVIEW: The Banxico left rates on hold at 11.00% as was widely expected by all those surveyed by Reuters. It was a unanimous decision which also saw inflation forecasts raised throughout the majority of the forecast horizon, raising headline and core inflation forecasts from Q224 through to Q325, before hitting the 3% inflation target in Q4 25 vs Q2 25 previously when it pencilled in inflation at 3.1%. Within the statement, it noted the disinflation process is expected to continue, but the inflation forecasts suggest that Banxico expects the disinflation process to be slower than initially thought. It noted that Services inflation is foreseen to show more persistence, as compared to what had been previously anticipated. Looking ahead, the Banxico will assess the inflationary environment in order to discuss the reference rate adjustments, and it will also consider the incidence of the restrictive policy stance that has been maintained. Analysts at Capital Economics highlight that rate cuts are to be more gradual than most anticipate. CapEco "project 100bp of rate cuts, to 10.00%, over the rest of this year and an additional 200bp, to 8.00%, in 2025. The analyst consensus is for rates to end this year at 9.25-9.50% and next year at 7.50%."

FIXED INCOME

T-NOTE (M4) FUTURES SETTLE 8+ TICKS HIGHER AT 109-03

Treasuries rallied after rising jobless claims and a solid 30yr auction. 2s -2.8bps at 4.815%, 3s -3.4bps at 4.624%, 5s -3.2bps at 4.469%, 7s -3.3bps at 4.459%, 10s -2.8bps at 4.455%, 20s -2.6bps at 4.706%, 30s -2.3bps at 4.610%.

INFLATION BREAKEVENS: 5yr BEI +0.9bps at 2.354%, 10yr BEI +0.3bps at 2.342%, 30yr BEI +0.6bps at 2.345%.

THE DAY: Treasuries entered the Thursday session continuing in their slow descent from the peaks seen on Tuesday. There were little catalysts of note with weakness getting pinned on the weak 10yr auction from Wednesday with T-Notes breaking through their Monday lows of 108-23 during the APAC session, despite weak Japanese wage figures, and hitting new WTD lows of 108-19+ in the European morning ahead of the BoE.

The dovish BoE -- rates on hold but Ramsden joined Dhingra as a dovish dissenter, followed by Governor Bailey talking up the need to cut -- put a cap on any further range extension to the downside for USTs as Gilts rallied, although a 10k 5yr block sale also prevented the upside in the immediacy. However, the trigger for the meaningful UST recovery was the rise in weekly initial US jobless claims to the highest since August last year, which despite potentially being a head-fake, was paid attention to given the growing slew of weakening labour market indicators. T-Notes hit resistance at 108-30+ after the data, with support from a 5.4k T-Note block buyer.

New highs were made in the NY afternoon after the solid 30yr auction (details below), with the duration-led bid extending into the settlement where T-Notes peaked at 109-03+, ahead of their Tuesday/WTD peak of 109-09, and the post-NFP peak of 109-09+.

Looking ahead, Friday's preliminary Michigan survey is the US highlight, although traders are casting more attention to next week's data (PPI Tuesday, CPI and Retail Sales on Wednesday). There is no US coupon supply next week. On Fed Speak: [Fri] Bowman (v), Logan (nv), Kashkari (nv), Goolsbee (v), Barr (v), [Mon] Jefferson (v), Mester (v), [Tues] Powell, [Weds] Kashkari.

30YR AUCTION: A strong 30yr new issue auction from the Treasury which saw a much better showing than the 10yr on Wednesday. USD 25bln of bonds were sold at 4.635%, vs last month's 4.671%, which marked a 0.7bp stop through the When Issued yield, better than April's 1bp tail and six-auction average tail of 0.3bps. The auction was covered 2.41x, above the prior 2.37x and avg. 2.38x. Dealers were left with a low 15.4% (prev. 17.3% and avg. 16.6%) with both Directs and Indirects seeing a step-up in demand from the April takedowns.

STIRS:

- SR3M4 +0.5bps at 94.71, U4 +1.5bps at 94.905, Z4 +2.5bps at 95.14, H5 +2.5bps at 95.38, M5 +3bps at 95.595, U5 +3bps at 95.765, Z5 +2.5bps at 95.88, H6 +3bps at 95.965, M6 +3bps at 96.015, M7 +3bps at 96.125, M8 +2.5bps at 96.11.
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.845tln (prev. 1.864tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 77bln (prev. 78bln).
- NY Fed RRP op demand at USD 0.459tln (prev. 0.475tln) across 75 counterparties (prev. 73).
- US sells USD 80bln of 1-month bills at 5.270%, covered 2.93x; sells USD 80bln of 2-month bills at 5.275%, covered 2.98x.
- US leaves 42-day, 13-week, 26-week, and 52-week bill auction sizes unchanged at USD 75bln, 70bln, and 46bln, respectively; 13- and 26-week sold on May 13th, 42-day and 52-week sold on May 14th; all to settle on May 16th.

CRUDE

WTI (M4) SETTLES USD 0.27 HIGHER AT 79.26/BBL; BRENT (N4) SETTLES USD 0.30 HIGHER AT 83.88/BBL

Oil prices were modestly firmer on Thursday, with gains out of APAC trade faded through the US session, while the softer Dollar provided some support. WTI and Brent front-month futures hit session peaks of USD 79.80/bbl and 84.33/bbl, respectively, before settling slightly off their lows. In China, the latest trade data saw Chinese oil imports rise in April to 10.88mln BPD, up 5.45% Y/Y, according to Reuters citing official data. Meanwhile, in the Middle East, Israeli officials announced that their delegation in Cairo had departed after it presented to mediators its reservations regarding the Hamas proposal, saying Israel will press ahead with its operation in Rafah and elsewhere in the Gaza strip as planned, which capped some of the downside in oil in the US session. Later on, a US State Department official said the US continues to engage with Israel about other options in Rafah instead of a major military operation and it continues to work to try to finalise a ceasefire deal text, but conceded the effort is "incredibly difficult".

EQUITIES

CLOSES: SPX +0.51% at 5,214, NDX +0.16% at 18,113, DJI +0.85% at 39,388, RUT +0.90% at 2,074.

SECTORS: Real Estate +2.31%, Utilities +1.52%, Energy +1.36%, Materials +1.08%, Industrials +0.92%, Health +0.79%, Consumer Staples +0.76%, Financials +0.69%, Consumer Discretionary +0.69%, Communication Services +0.38%, Technology -0.25%.

EUROPEAN CLOSES: DAX: +1.07% at 18,685.35, FTSE 100: +0.32% at 8,380.63, CAC 40: +0.69% at 8,187.65, Euro Stoxx 50: +0.32% at 5,054.25, IBEX 35: -0.95% at 11,047.11, FTSE MIB: +0.56% at 34,343.00

EARNINGS:

- **Arm Holdings (ARM)** -2%: Investors are seemingly disappointed by guidance, as FY revenue midpoint was ever-so-slightly light, but all major metrics all beat.
- **AppLovin (APP)** +14%: Top and bottom-line beat, as did next quarter outlook.
- **HubSpot (HUBS)** flat%: Strong earnings report adding to Bloomberg sources noting Alphabet (GOOGL) talks to acquire the Co. are progressing.

- **Epam Systems (EPAM)** -27%: Weak Q2 and FY guidance.
- **Airbnb (ABNB)** -7%: Next quarter top line midpoint guidance shy of consensus.
- **Tapestry (TPR)** +3.5%: EPS and revenue light, alongside cutting its annual sales forecast.
- **Robinhood (HOOD)** -3%: Q1 earnings metrics surpassed expectations.
- **Roblox (RBLX)** -22%: Top line underwhelms as did Q2 bookings and FY revenue guidance.
- **Nutrien (NTR)** +5%: EPS and revenue beat.
- **Hyatt (H)** +3%: EPS, adj. EBITDA short as was FY guidance for the latter.

STOCK SPECIFICS:

- **Qualcomm (QCOM)** flat: Not changing Q3 guidance. Note, on Wednesday Intel (INTC) said that its revenue is to come in towards the lower end of guidance after the US imposed restrictions related to Huawei.
- **Paramount (PARA)** +2%: Sony and Apollo aim to acquire the Co., and then would sell off parts of it.
- **Tesla (TSLA)** -1.5%: Escalating China job cuts with more layoffs this week, according to Bloomberg.
- **T-Mobile US (TMUS)** +1.1%, **Verizon (VZ)** +0.8% and **US Cellular (USM)** +27%: are in discussions to carve up U.S. Cellular (USM), one of the country's last major regional wireless carriers, in separate transactions that would give both buyers access to valuable airwaves, according to WSJ.
- **Apple (AAPL)** +1%: To use its own chips in cloud to power AI features in 2024, according to Bloomberg.
- **Sinclair (SBGI)** +22%: Explores selling about 30% of broadcast stations, according to CNBC.
- **Boeing (BA)** +0.5%: US SEC is probing Boeing (BA) safety claims after a panel blew off the Alaska Airlines (ALK) flight in January, according to Bloomberg.

US FX WRAP

The Dollar sold off on Thursday after a surprise jump in initial jobless claims to the highest level since August of 2023 at 231k. The data set the tone for the session which saw the buck sell off and yields fall with perhaps more weight put onto this data this week given the lack of other tier 1 data seen. It also adds to a series of softer labour market reports, including JOLTS, NFP and some cautious commentary in the Services ISM report. The DXY fell from a peak of 105.74 on Thursday but still sits above 105.00.

The Pound was volatile on account of the BOE rate decision. A dovish dissent and ensuing commentary from BoE Governor Bailey opened up the door to cuts at coming meetings, but data will determine whether they cut in June or not. Cable had attempted to reclaim 1.2500 ahead of the BoE but the release sent Cable to lows of 1.2443 before it started to pare with market positioning bearish-sided in Sterling. The US jobless claims data then took Cable north of 1.2500 on account of the Dollar weakness. EUR/GBP was relatively flat however but it does remain higher than pre-BoE announcement, north of 0.8600.

The Euro got a boost from the weaker greenback after the dovish jobless claims data with a lack of tier 1 drivers out of the Eurozone today. The price action in the Dollar saw EUR/USD rise from lows of 1.0725 to a peak of 1.0784.

The Yen was flat vs the weaker Dollar with USD/JPY trading between 155.17-95. The BoJ SOO revealed a member said if trend inflation accelerates, the BoJ will adjust the degree of monetary easing (a similar line to BoJ Governor Ueda earlier in the week), but noted the BoJ will adjust the degree of monetary easing but an accommodative financial environment is likely to continue for the time being. The weaker dollar and lower US yields kept the Yen from weakening above 156.00 but even given the environment, it still failed to see gains vs the Dollar.

The Yuan only saw a marginal gain vs the weaker greenback with little reaction seen after the narrower trade surplus than expected in April where there was a surge in imports.

Antipodes saw gains thanks to the softer buck and upside in US equities seen post jobless claims; AUD/USD reclaimed 0.6600 while NZD/USD reclaimed 0.6000 after briefly dipping beneath it in the morning. The Looney also firmed vs the buck on the same reasons to the antipodes albeit CAD gains were not to the same extent. The Financial Stability report had little reaction to the CAD, as did commentary from BoC Governor Macklem, who noted if the jobless rate were to go up sharply, it would hit people's ability to meet mortgage payments.

EMFX was mixed. BRL was softer after the BCB rate decision which cut by 25bps as expected, but with the Lula appointees all voting for a 50bp cut instead, leaving it a 5-4 vote split (full review above). MXN saw some marginal strength in wake of the Banxico rate decision which left rates on hold as expected but it lifted its inflation forecasts until Q4 25, where it sees inflation returning to its 3% target, noting that services inflation is expected to show more persistence (full review above). Note, pre-Banxico the latest Mexican inflation data was more or less in line with forecasts. Elsewhere, PLN saw gains vs the Euro after leaving rates on hold as expected at 5.75% while the statement noted future decisions will be data-dependent and they may intervene in FX markets. Meanwhile, ZAR saw gains tracking the gains in gold, helping offset a dismal manufacturing production report. TRY was flat vs the Dollar, note the CBRT Governor stated they are determined to keep tight policy until significant improvement in the inflation outlook, the year-end inflation forecast midpoint also lifted to 38% from 36% previously.