US Market Wrap

16th May 2024: Bonds sold and stocks meander on day after CPI

- **SNAPSHOT**: Equities flat/down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Soft housing data; Jobless claims fall, just above expectations; Hot import/export prices; Fed's Williams said April CPI was positive, policy in a good place; Mester notes inflation risks have moved up; Barkin thinks it will take more time for inflation to come down; Israel says additional forces will take place in Rafah op.; Strong WMT earnings; Aussie unemployment rate ticks up; Japan GDP disappoints.
- **COMING UP**: **Data**: Chinese Retail Sales, EZ CPI (F) **Speakers**: ECB's de Guindos, BoE's Mann; Fed's Waller & Daly **Earnings**: Engie, Scor

MARKET WRAP

Stocks were ultimately slightly lower (RUT underperformed) on Thursday with gains after the cash equity open paring throughout the US evening in a quiet session. Bonds had given up some of the post-CPI rally and were gradually sold throughout the session on likely profit-taking while the US data dump accelerated the selling pressure. Import and Export prices were hotter than expected - which may have implications for Core PCE - while jobless claims were in line, paring most of the prior week's spike. Elsewhere, housing data was soft and the Philly Fed disappointed, with the prices paid component easing. Aside from data, Fed speak saw Barkin acknowledge inflation is not where the Fed is trying to get, and it will take more time to get it there. Mester also noted it will take longer to gain confidence inflation is moving towards 2%, adding that risks to the inflation side of the Fed's mandate have increased. Williams spoke pre-data, noting the April CPI was a positive development, and that he does not see a need for a near-term rate cut OR hike. Elsewhere, crude prices settled in the green supported by geopolitics but with gains capped on the Dollar strength. The Buck was supported by the move higher in yields and perhaps some general paring from the move on Wednesday while traditional havens lagged with the Yen and Franc underperforming, gold was also lower. The earnings highlight was Walmart (WMT) who rallied on a strong report while Under Armour (UAA) saw slight losses after weak guidance. Cisco (CSCO) failed to hold on to its pre-market bid despite a strong report, with the stock heavily sold on the session amid some cautious sell-side commentary on the report.

US DATA

IMPORT/EXPORT PRICES: US Import Prices were hotter than expected at 0.9%, above the 0.3% forecast and upwardly revised prior of 0.6%, also above the top end of analyst forecasts. Export Prices rose 0.5% in April, above the 0.3% forecast and above the 0.1% (revised down) prior. Regarding import prices, it was the largest 1mth increase since March 2022, with the upside led by higher fuel and nonfuel import prices. Fuel import prices rose 2.4% (prev. 5.4% M/M), while nonfuel imports rose 0.7% (prev. 0.2% M/M). Nonetheless, prices for foods, feeds, and beverages rose 1.7 (prev. 1.6%), the largest increase since July 2023 while nonfuel industrial supplies and materials saw the largest rise since March 2022. The hotter than expected import prices may have consequences for the April Core PCE, the Fed's preferred gauge of inflation, at the end of the month. After the PPI and CPI reports earlier in the week, analysts have pencilled in Core PCE between 0.2-0.26%, although the hot import price data may see forecasts shift up slightly.

JOBLESS CLAIMS: Initial Claims eased to 222k from 232k, relatively in line with the 220k forecast. The 4wk average ticked up to 217.75k from 215.25k. The unadjusted data totalled 197k, -13k from the prior week, while seasonal factors had expected a decline of 4k. Continued claims, for the week prior, ticked up to 1.794mln from 1.781mln, above the 1.785mln forecast. Note, that neither of the weeks data coincide with the BLS NFP survey window. The Initial Claims data follows the unexpected increase last week but it appears to have pared the majority of that this week. Pantheon Macroeconomics highlights it appears to have been due to short-term benefit claims from NYC school employees over the Spring break. Although claims had reversed this week, the desk notes that claims elsewhere remain higher than two weeks ago. "This is much too short a run of data to be definitive but it is consistent, at least, with signals of a rising trend in layoffs from the Challenger survey, WARN notices, the NY Fed's consumer survey of job loss fears, and Google searches for "claim benefits". Pantheon notes they need to see a few more weeks' data before they can be sure this upturn in claims is real.

HOUSING STARTS/BUILDING PERMITS: US Housing Starts rose 5.7% in April to 1.36mln, disappointing expectations for a rise to 1.42mln from the prior revised down of 1.287mln. Building permits, a more forward-looking indicator of the housing market, fell 3.0% to 1.44mln from the prior revised up 1.485mln, despite expectations for a rise from the initially reported 1.467mln to 1.485mln. Analysts at Oxford Economics expect housing starts to rise slightly in H2 as rates start to ease, but they note the data is consistent with a weaker pace of starts in Q2 vs Q1.

PHILLY FED: The Philly Fed business index fell to 4.5 in May from 15.5, and beneath the expected 8.0. Looking at the internals, Employment rose to -7.9 (prev. -10.7), remaining firmly negative, while New Orders plunged to -7.9 from 12.2. The inflationary gauge of Prices Paid dipped to 18.7 (prev. 23.0), with the CapEx index more-or-less unchanged at 20.1 (prev. 20.0). Looking ahead, 6m index fell to 32.4 from 34.3. Qualitatively, responses suggest softer regional manufacturing activity, the indicator for current activity remained positive but declined, and the new orders and shipments indexes turned negative. On balance, the firms indicated a decline in employment, and price indexes were below their long-run averages. The survey's broad indicators for future activity continued to suggest widespread expectations for growth over the next six months. Overall, Pantheon Macroeconomics highlight that the Philly Fed business index largely echoed the NY Fed survey on Wednesday, and while the small sample sizes of the regional Fed surveys mean they get treated with caution, when they move together they usually are informative.

FED SPEAK

WILLIAMS: NY Fed President Williams noted the April CPI was "a positive development", and he is optimistic that inflation will continue to retreat, although he still lacks the confidence that inflation is moving sustainably to 2%, and he does not see a need for a "near term" rate cut or hike. Williams believes that policy is restrictive and in a good place, reiterating the Fed does not need to wait until inflation is at exactly 2% to ease. He noted that balance sheet policy changes are aimed at limiting market impact, and the balance sheet is still having a modest impact on yields. There are no signs of financial market risk. On the economy, Williams said the jobs market is tight but excesses are waning, he hopes the jobs market can balance without a big increase in unemployment and expects unemployment to hit 4% this year. Williams also noted the economy is moving into better balance.

BARKIN (2024 voter) said that companies are still saying there is no crime in trying to raise prices and that services in particular still feel they can raise prices. He noted the latest Retail Sales data points to "good but not great" consumer spending, while on inflation, he said CPI is still not where the Fed is trying to get to. He believes it will take more time for inflation to come down and the question is for how long rates need to be held where they are to get the required impact on inflation. He also noted the inflation story is "much longer term" than what happens in the market.

MESTER (2024 voter, retiring) largely reiterated remarks from Tuesday, noting current stance will help lower inflation and that policy is well positioned. She repeated it will take longer to gain confidence that inflation is moving towards 2% but a strong economy means the Fed is risking little to hold policy in place. Despite the CPI data on Wednesday, she said that risks to the inflation side of the mandate have increased, but she did welcome the CPI data as a sign of cooling inflation. Mester expects gradual progress on lowering inflation, while she also noted that downside risks to growth and hiring have fallen, adding labour market conditions are strong. She also stated that "leading up to the FOMC meeting two weeks ago, there was a significant change in tone from the contacts in our District. Many reported that economic activity had strengthened and by more than they had anticipated."

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 7+ TICKS LOWER AT 109-15

T-Notes bear flattened on Thursday on profit taking post CPI on Wednesday. At settlement, 2s +6.1bps at 4.797%, 3s +5.9bps at 4.579%, 5s +5.0bps at 4.407%, 7s +3.9bps at 4.388%, 10s +2.7bps at 4.383%, 20s +1.5bps at 4.626%, 30s +0.7bps at 4.523%.

INFLATION BREAKEVENS: 5yr BEI +1.4bps at 2.319%, 10yr BEI +0.3bps at 2.319%, 30yr BEI -0.3bps at 2.324%

THE DAY: T-Notes sold off overnight, through Europe and the US session on apparent profit taking after the post CPI rally on Tuesday. Nonetheless, there were still some key data and Fed speak to digest. US data releases saw jobless claims a touch above expected but down from the spike seen in the prior week, while Housing Starts rose but missed analyst expectations while building permits declined. The Philly Fed survey disappointed expectations on the headline although the prices paid component eased from the prior month. However, Import and Export prices were hotter than the consensus which could have some implications for Core PCE due at the end of the month. The data resulted in an acceleration of the selling pressure seen already, likely on the hot import prices with the other metrics "dovish". There were also remarks post data from Fed's Barkin acknowledging inflation is not where the Fed is trying to get, and it will take more time to get it there. Mester also noted it will take longer to gain confidence inflation is moving towards 2%, adding that risks to the inflation side of the Fed's mandate have increased. Williams spoke pre-data, noting the April CPI was a positive development, but he does not see a need for a near-term rate cut OR hike. Mester also said the CPI report was welcome.

NEXT WEEK'S AUCTIONS: US Treasury to sell USD 16bln 20yr bonds on 22nd May, and USD 16bln of 10yr TIPS on 23rd May; both settling on 31st May.

STIRS:

- SR3M4 -1.0bps at 94.750, U4 -2.5bps at 94.965, Z4 -6.5bps at 95.125, H5 -8.0bps at 95.385, M5 -9.0bps at 95.615, U5 -9.0bps at 95.800, Z5 -8.0bps at 95.940, H6 -7.5bps at 96.040, M6 -6.0bps at 96.110, M7 -4.0bps at 96.225, M8 -2.5bps at 96.195.
- US sold USD 80bln in 4-week bills at 5.270%, covered 2.73x; sold USD 80bln in 8-week bills at 5.270%, covered 2.74x
- NY Fed RRP op demand at USD 0.410tln (prev. 0.444tln) across 72 counterparties (prev. 74).
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.936tln (prev. 1.838tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 768bln (prev. 76bln).
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CRUDE

WTI (N4) SETTLED USD 0.58 HIGHER AT 78.74/BBL; BRENT (N4) SETTLED USD 0.52 HIGHER AT 83.27/BBL

The crude complex was firmer on Thursday, albeit settling off highs, with oil picking up as US participants arrived after Middle Eastern headlines. WTI (N4) and Brent (N4) hit highs of USD 79.30/bbl and 83.78/bbl, respectively, after the US data against earlier troughs of 77.75/bbl and 82.31/bbl. Regarding the day, oil ground to session highs as US participants entered the fray, with some citing comments from Israeli Defence Minister who noted additional forces will take place in the Rafah ground operation. Prior to this, in the EZ morning action was much more contained and largely dictated by the USD. Elsewhere, CPC increased oil exports 4% Y/Y to 1.44mln/BPD across January-April, while the wildfire in Canada remains away from the oil sands city of Fort McMurray, Alberta, for now. Friday's docket is sparse with Baker Hughes rig count the highlight, absent of any geopolitical updates.

EQUITIES

CLOSES: SPX -0.21% at 5,297, NDX -0.21% at 18,557, DJIA -0.10% at 39,869, RUT -0.63% at 2,096.

SECTORS: Consumer Staples +1.48%, Communication Services -0.02%, Financials -0.02%, Health -0.10%, Real Estate -0.15%, Technology -0.34%, Utilities -0.36%, Energy -0.42%, Industrials -0.65%, Materials -0.73%, Consumer Discretionary -0.75%.

EUROPEAN CLOSES: DAX: -0.76% at 18,725.71, FTSE 100: -0.08% at 8,438.65, CAC 40: -0.63% at 8,188.49, Euro Stoxx 50: -0.54% at 5,073.55, IBEX 35: -0.56% at 11,299.30, FTSE MIB: +0.12% at 35,410.13, SMI: +0.40% at 11,946.83

STOCK SPECIFICS:

- **Walmart (WMT)** +7%: EPS, revenue, and comparable sales all beat, with FY adj. EPS at high end or slightly above original guidance.
- **Cisco (CSCO)** -2.5%: Top and bottom line surpassed Wall St. consensus, alongside raising FY revenue view. Note, despite the strong report Piper Sandler noted the organic lead metrics were not that impressive (ex-product orders / low-quality) and still suggests core Networking, Security, and Collaboration weakness.
- **JD.Com (JD)** +2%: Profit and revenue topped consensus.
- **Under Armour (UAA)** -1.5%: FY profit outlook was way short of expected and revenue is seen to be down at a low double digit percentage rate, amid downbeat commentary. Also, sees a surprise Q1 loss per share.
- **Deere & Co (DE)** -4.5%: Profit forecast was cut on a demand slowdown.
- **SilverBow Resources (SBOW)** +13%: To be acquired by **Crescent Energy (CRGY)** for USD 2.1bln.
- **Corebridge (CRBG)** +8%: **AIG (AIG)** is to sell 20% ownership stake of Corebridge (CRBG) to Nippon Life for USD 3.8bln.
- **Meta (META)** -1.5%: EU investigates Co. over child safety & mental health concerns.

- **Microsoft (MSFT) -**0.5%: Will reportedly launch its custom Cobalt 100 chips to customers as a public preview at its Build conference next week, according to TechCrunch. MSFT will also announce a partnership with **Snowflake (SNOW)**. Fabric will now support Snowflake's Iceberg format.
- **Waste Management (WM)** +1.5%: Exploring a USD 3bln sale of its renewable natural gas unit, via Reuters citing sources.
- **Chubb (CB)** +4.5%: In its latest 13-F Berkshire Hathaway (BRK.B) reported a stake in the Co., around 6.4% of its market cap. For a full breakdown of the 13-F's please click here.

US FX WRAP

The Dollar Index was firmer on Thursday and hit a high of 104.620, attempting to recoup some of its post-CPI and retail sales losses where it saw a low of 104.070. There was a slew of data, nothing changed the dial too much. As a brief recap, import and export prices rose more than expected, while initial jobless claims edged lower but well within recent ranges, and Philly Fed disappointed with internals mixed. Industrial production was flat. On the Fed footing, Goolsbee (non-voter), Williams (voter), Barkin (voter), and Mester (voter) were on the wires, with Williams noting April CPI was a "positive development", optimistic inflation will continue to retreat, still lacks confidence inflation moving sustainably to 2%, and doesn't see need for a "near term" rate cut or hike. The calendar on Friday is very quiet as participants await the next catalyst, arguably FOMC Minutes, Nvidia earnings, and Core PCE.

JPY and CHF were the G10 underperformers against the Buck, although only noticing slight losses. USD/JPY hit a peak of 155.52 vs. an earlier trough of 153.61. Overnight, Japanese Q1 GDP declined marginally more than forecasted, but Annualised was much greater than anticipated. The Japanese weakness came despite the Yen being one of the main beneficiaries of Wednesday's post-data Buck weakness with the move higher in yields.

Antipodeans were mixed. NZD was flat while AUD saw slight losses vs. the Greenback, paring some of Wednesday's gains. Overnight, Australian unemployment unexpectedly ticked higher to 4.1% (exp. 3.9%, prev. 3.8%) while they added 38.5k jobs to the economy (exp. 23.7k, prev. -6.6k). NZD/USD and AUD/USD traded between 0.6096-6140 and 0.6655-6714, respectively.

CAD, GBP, and EUR have seen ever-so-slight losses on account of the broader Buck recovery, as opposed to anything currency-specific. Nonetheless, EUR/USD ran out of steam ahead of 1.09, printing a high at 1.0894. ECB speakers provided little movement, however, Centeno, who tends to sit at the dovish end of the spectrum, stated a preference for gradual rate cuts. GBP held onto a bulk of Wednesday's notable gains. Cable went as high as 1.2700 but failed to breach above the level. If Cable manages to resume its ascent higher and breach 1.27, the April high sits just above at 1.2709. Comments from BoE's Greene highlighted that data released ahead of the June meeting will give a clearer indication of how far along the "last mile" the MPC has come.

EMFX was mixed. Yuan and MXN were flat, BRL, ZAR, and CLP saw gains, while the COP was lower. For the Real, Brazil Finance Ministry upped its inflation forecasts, with 2024 now seen at +3.7% (prev. +3.5%), and 2025 at +3.2% (prev. +3.1%). For GDP, 2024 is seen higher at +2.5% (prev. +2.2%), but 2025 was left unchanged at +2.8%.