

Stocks slump after weak consumer confidence data, bonds bid; NVDA earnings ahead

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar down
- **REAR VIEW:** US Consumer Confidence slides; Kyiv agrees with Washington on minerals deal; Fed's Barkin plays down Federal layoffs; US to investigate possible tariffs to rebuild copper industry; Strong US 5yr note auction; US President Trump signs action on price transparency in health care; Chile's Codelco says power outage has affected all its mines.
- **COMING UP:** **Data:** Australian CPI, German GfK Consumer Sentiment, US New Homes Sales. **Speakers:** ECB's Lagarde, Cipollone; BoE's Dhingra; Fed's Barkin, Bostic, French President Macron. **Supply:** Australia, Germany, US. **Earnings:** NVIDIA, Snowflake, Salesforce, Lowe's, NRG Energy, Advance Auto Parts, AB Inbev, Stellantis, Munich Re, Fresenius, Covestro, Deutsche Telekom

MARKET WRAP

US equities closed off earlier lows seen at the cash open with DJI (+0.4%) turning positive while SPX (-0.5%), NDX (-1.2%) and RUT (-0.4%) remained in the red. Behind the selloff, fears resumed around the consumer with the latest US Consumer Confidence gauge from the Conference Board exhibiting a similar tone seen in last Friday's UoM report, namely consumer confidence tumbling below the most pessimistic analysts forecasts. The print saw its largest monthly decline since August 2021, with expectations index dipping below the level of 80 which "usually signals a recession ahead". Despite the selling pressure, Consumer Staples and Real Estate outperformed with decent gains. On the former, Walmart (WMT +4.3%) relief rally from lows seen last week on underwhelming guidance helped while positive earning reports from American Tower (AMT, +6.1%) and Public Storage (PSA, +1.7%) buoyed the Real Estate sector. Communications were at the bottom of the pile as Meta (META) continued its retreat from ATHs while heavyweight loser Tesla (TSLA, -8.4%) weighed on the Discretionary sector following European sales dropping 45% in January. In FX, the Dollar wiped out recent strength with yields across the Treasury curve lower. The move higher in treasuries leading up to the US data had little fresh drivers behind it, but many have been becoming wary over the recent consumer woes and economic implications from DOGE's incoming Federal layoffs. Fed's Barkin downplayed impacts from Federal layoffs, acknowledging that federal layoffs could be significant for regional economies but represent only 2% of the national job market. EUR, GBP, and Havens all saw gains, with the Euro helped by positive developments regarding US-Ukraine relations. The latest FT reports note that Kyiv has agreed terms with Washington on a minerals deal after the US dropped demands for a right to USD 500bln in potential revenue from exploiting the resources. Later, Bloomberg reported Ukraine's cabinet is expected to recommend a US critical minerals deal to be signed on Wednesday. In crude, WTI and Brent were lower by ~ USD 1.70/bbl at USD 69/bbl and USD 72.60/bbl, respectively. Prices were weighed on by subdued consumer sentiment while energy-specific newsflow was light. US President Trump commented on Truth that they want the Keystone XL Pipeline built and suggested easy approvals. Post-US close, US Commerce Secretary said they will investigate possible impositions of tariffs to build the US copper industry, however, no time line was given. Going forward, Nvidia (NVDA) earnings on Wednesday are the big event and looking beyond to Friday, the PCE report remains of focus, with Fed's Barkin expecting it to show a further decline.

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CONSUMER CONFIDENCE: US Consumer Confidence in February tumbled to 98.3 from 105.3, well beneath the 102.5 consensus and also beneath the most pessimistic forecast of 99.3. Within the report, the Present Situation Index fell to 136.5 from 139.9, with forward looking expectations tumbling to 72.9 from 82.2. Meanwhile, inflation expectations jumped to 6% from 5.2% on the 12mth forecast. The report also highlights that "For the first time since June 2024, the Expectations Index was below the threshold of 80 that usually signals a recession ahead." It was also the largest monthly decline since August 2021. The downbeat data follows that of the latest UoM survey, but Fed's Barkin reminds us that consumer confidence does seem heavily influenced by political affiliation, but stressed it does still matter a lot. The CB Consumer Confidence report echoes sentiment from the UoM with fears of tariffs and government spending costs hitting confidence data. Nonetheless, when coupled with a downbeat S&P Global Services PMI, Walmart (WMT) cutting guidance and the woeful Retail Sales report, it does mark cause for concern regarding the outlook for the US consumer. Given there is a lot of uncertainty regarding actual government policies and the impact of such policies, the question still remains over whether such a weak outlook is realised.

FED'S BARKIN (2027 voter): The Richmond Fed President stressed that uncertainty argues for caution in the final stages of the inflation fight. He believes policy should remain modestly restrictive until there is greater confidence that inflation will return to target. He expects upcoming PCE data to show further declines, highlighting significant progress made by the Fed. Barkin said the economy is in a good place and he favors a "wait and see" approach to assess the impact of future policy changes. After the data, Barkin said that business and consumer confidence play a significant role in the economy and that small business confidence has been rising, which could support hiring, while noting how consumer confidence appears strongly influenced by political affiliation. Barkin acknowledged that federal layoffs could be significant for regional economies but represent only 2% of the national job market.

FIXED INCOME

T-NOTE FUTURES (H5) SETTLED 20+ TICKS HIGHER AT 110-16+

T-notes rally into month-end with more downbeat consumer data supporting. At settlement, 2s -7.2bps at 4.096%, 3s -8.5bps at 4.083%, 5s -10.3bps at 4.127%, 7s -10.4bps at 4.209%, 10s -9.9bps at 4.295%, 20s -9.2bps at 4.592%, 30s -9.6bps at 4.553%.

INFLATION BREAKEVENS: 5yr BEI -4.6bps at 2.526%, 10yr BEI -4.3bps at 2.389%, 30yr BEI -4.3bps at 2.289%.

THE DAY: T-notes continued to rally on Tuesday to reclaim 110-00 to the upside with yields lower across the curve. T-notes were already bid by the time US players arrived with upside seemingly on little fresh, with underlying factors perhaps at play. Such as DOGE spending cuts and an administration preference for lower UST yields, while the latest Fed minutes hinted the Fed may consider a pause or slowdown in the balance sheet drawdown. The moves appeared to have been extended this week potentially on month end flows with Bloomberg Indices estimating a 0.12yr extension. Meanwhile, the risk sentiment was dire with equities tumbling once again after the US cash equity open, boosting haven demand. The bid was capped after a slew of corporate issuance, but buying was reignited after a dire US Consumer Confidence print, which fell to 98.3 from 104.1, beneath the 102.5 consensus. Aside from the aforementioned underlying factors mentioned above, ING also point out that potential adjustments to the supplementary liquidity ratio, in particular with reference to exclusion of Treasuries in the measure, are also supporting the move. The desk notes "This would free up balance sheets at banks, ultimately adding to liquidity in US Treasuries. And that in turn helps Treasury yields to trade lower than they would otherwise". Another factor to be aware of was remarks from Treasury Secretary Bessent last week, alongside him noting the administrations preference for lower yields, he also said that terming out the debt is a long way off, (i.e. funding government with longer duration notes/bonds as opposed to short term bills, implying the Treasury will not raise its Treasury issuance in the immediacy). T-notes hit a peak of 110-20 in wake of the consumer confidence data, before paring somewhat into settlement, albeit remaining well in the green. Recent data in the US has shown an economy with hot leaning inflation prints and a robust labour market, however consumer data has been woeful with a downbeat retail sales report, soft surveys and today's consumer confidence data added to the woes, and is also in fitting with the grim Walmart (WMT) guidance issued last week.

SUPPLY

- 5YR: Overall a strong 5yr note auction. The US Treasury sold USD 70bln of 5yr notes at a high yield of 4.123%, a lower yield than the January offering's 4.33%. The auction stopped through the when issued by 1bps, a greater sign of demand than the prior 0.6bps stop through, and much better when compared to the six auction average of a 0.1bps tail. The bid-to-cover of 2.42 was in line with priors and averages. The breakdown of buyers saw very strong indirect demand of 74.87%, rising from the prior 62.8% and above the 68.6% average. Direct demand fell however to 14.54% from 26.1%, beneath the 19% six auction average. This left dealers with a slightly below average and prior 10.59% of the auction.
- US sold USD 75bln of 6wk bills (exp. USD 75bln) at high rate of 4.230%, B/C 3.05x

US Treasury to sell:

- USD 44bln in 7yr notes on February 26th; to settle February 28th.
- USD 28bln of 2yr FRN on February 26th, to settle February 28th.
- USD 60bln of 17wk bills on February 26th; to settle March 4th.
- USD 75bln in 8wk bills on February 27th; to settle March 4th.
- USD 80bln in 4wk bills on February 27th; to settle March 4th.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: March 1bps (prev. 1bps), May 7bps (prev. 8bps), June 21bps (prev. 19bps), Dec 57bps (prev. 50bps).**
- NY Fed RRP op demand at USD 96bln (prev. 76.8bln) across 36 counterparties (prev. 30)
- SOFR at 4.34% (prev. 4.34%), volumes at USD 2.425tn (prev. 2.400tn).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 99bln (prev. 103bln).

CRUDE

WTI (J5) SETTLED USD 1.77 LOWER AT 68.93/BBL; BRENT (K5) SETTLED USD 1.81 LOWER AT USD 72.50/BBL

Crude prices tumbled on Tuesday as soft consumer confidence data adds fears to demand side of equation. Ahead of the data, the European morning saw prices fluctuate on either side of the unchanged mark amid a lack of drivers at the time, with traders continuing to weigh tariff implications with ongoing geopolitical developments alongside the next steps OPEC+ could take. Oil prices saw marginal from overnight highs, although oil-specific newsflow was light. US President Trump commented on Truth that they want the Keystone XL Pipeline built and suggested easy approvals. The downbeat risk sentiment also kept crude prices hampered. Both WTI and Brent hit fresh lows after a dire US Consumer Confidence print, adding to demand concerns going forward if the consumer starts to slow. The downbeat consumer confidence follows other stark warnings, such as weak Walmart (WMT) guidance, a big miss in the latest US Retail Sales report, while PMI data has also been soft. WTI Apr resided in a current USD 68.88-71.26/bbl range with Brent May in a USD 72.21-74.76/bbl parameters. Traders look ahead to the weekly private inventory data after the US closes today. Currently, expectations are for: Crude (exp. +2.6mln), Distillate (exp. -1.5mln), Gasoline (exp. -0.9mln).

EQUITIES

CLOSES: SPX -0.47% at 5,995, NDX -1.24% at 21,087, DJIA +0.37% at 43,621, RUT -0.38% at 2,170

SECTORS: Communication Services -1.53%, Energy -1.47%, Technology -1.37%, Consumer Discretionary -0.84%, Utilities -0.51%, Financials -0.10%, Industrials +0.53%, Materials +0.80%, Health +0.86%, Real Estate +1.14%, Consumer Staples +1.69%.

EUROPEAN CLOSES: DAX: -0.13% at 22,396, FTSE 100: +0.11% at 8,669, CAC 40: -0.49% at 8,051, Euro Stoxx 50: +0.08% at 5,453, AEX: -0.50% at 930, IBEX 35: +0.85% at 13,124, FTSE MIB: +0.63% at 38,715, SMI: +0.62% at 13,019, PSI: +1.47% at 6,919

EARNINGS

- **Home Depot (HD):** Beat on profit and revenue, while FY SSS & EPS guidance disappointed.
- **American Tower (AMT):** Revenue and FY adj. EBITDA guidance topped expectations.
- **Keurig Dr Pepper (KDP):** Profit and revenue beat.
- **Zoom Communications (ZM):** FY profit and revenue outlook fell short.
- **Cleveland Cliffs (CLF):** Reported steeper loss than expected and revenue missed.
- **Diamondback Energy (FANG):** Top and bottom lines beat.
- **Hims & Hers (HIMS):** Profit missed, and is to pull commercial doses of copycat Ozempic.
- **Realty Income (O):** Adj. FFO and FY25 guidance underwhelmed.
- **Sempra (SRE):** EPS, revenue, and FY EPS guidance all missed.

STOCK SPECIFICS

- **Nvidia (NVDA):** Trump considers tighter controls on NVDA Chip exports to China. However, Chinese firms, including Alibaba (BABA) & Tencent (TECHY) are increasing orders for NVDA's H21 AI chip.
- **Eli Lilly (LLY):** Lowering Zepbound vial price of 2.5mg and 5mg dose.
- **Apple (AAPL):** CEO Cook says Apple continues to plan for annual dividend increases. Apple will be the largest customer of TSMC's Arizona factory.
- **Linde (LIN):** Increased the quarterly dividend by 8% to USD 1.50/shr.
- **UnitedHealth Group (UNH):** US Senator Grassley launches inquiry into company's Medicare billing practices, according to WSJ.
- **McDonald's (MCD):** Expects to incur about USD 300mln of restructuring charges in 2025.
- **Starbucks (SBUX):** To outsource some Tech work after corporate shake up, Bloomberg reports.

US FX WRAP

The Dollar Index on Tuesday erased gains seen on Friday and Monday in which markets eyed upcoming US tariff deadlines, as the focus returned to the series of soft US data and worries over the outcomes of Federal layoffs inbound by DOGE. On soft US data, February's US Consumer Confidence was in fitting with the theme seen from UoM on Friday, that is, consumer confidence turning dim (below analysis forecast range), the print's steepest monthly decline since August 2021. The Dollar did manage to eke out gains against Antipodeans, perhaps with the risk-off sentiment seen across the US equity space weighing. Regarding the Fed, Barkin seemed less fazed than some by DOGE's layoffs, saying Federal layoffs may be a big deal for the regional economy, but is only 2% of the national job market. In the US afternoon, Dollar downside resumed on FT reports that Ukrainian officials say Kyiv is now ready to sign the minerals deal after the US dropped demands for a right to USD 500bln in potential revenue from exploiting the resources. PCE remains a key focus for Markets on Friday, with Fed's Barkin expecting it to show a further decline. Updates to US/Canada/Mexico relations are too being eyed, with Mexican President Sheinbaum today saying there has been on trade conflicts with the US that would result in a derail of a potential deal ahead of the deadline, a deal she aims to close by the deadline.

G10FX price action was mixed. High-beta FX were largely in the red, with AUD, NZD, and the CAD softer, while GBP outperformed in the space. Leaders in the G10 space included havens, which benefited from the risk-averse mood across markets (US equities sold, Treasuries bid), with lower US yields also supporting. Also gaining, was the Euro and Pound with little newsflow behind the latter's upside. As expected, UK PM Starmer announced they will increase defence spending to 2.5% of GDP by 2027 with a goal of 3% in the next parliament. On the **Euro**, ECB's Euro Area Indicator of Negotiated Wage rates waned in Q4 to 4.12% (prev. 5.43%). Several ECB members were active on the day, Kazaks said the must be cautious as they are near the end of the terminal rate (currently at 2.75%) while Stournaras said the ECB should keep cutting to 2%, which he believes is likely the terminal rate. Updates continued from Germany where CDU leader Merz said debt brake reform is ruled out in the near future, a remark sparking short-lived upside in Bunds. EUR/USD hit highs of 1.0519 in the US morning, but failed a retest on the aforementioned FT reports of Kyiv agreeing terms with Washington on a minerals deal (Bloomberg later reported, it's expected to be signed on Wednesday). EUR/GBP climbed modestly to ~ 0.8302 from earlier lows of 0.8286.

EMFX: Rate decisions were seen from the BoK and NBH. The BoK cut its Base Rate by 25bps as expected to 2.75% as expected in an unanimous decision. The central bank highlighted US tariffs, and Fed policies as some uncertainties for the economy, and will determine the timing and pace of any further base rate cuts. Governor Rhee noted consumer sentiment is deteriorating and the construction sector is not doing well; USD/KRW ended the US session firmer, trading ~ 1,433. From the NBH, the Base Rate was kept steady at 6.5%, in line with expectations, arguing the risk of a higher inflation path this year has increased, with a careful and patient approach to monetary policy warranted.

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