# US Market Wrap

## 1st December 2023: Stocks and Bonds rip as rate cut pricing deepens after Powell's speech

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Powell lacks enough hawkish bite; ISM Mfg. fails to recover; Cooler-than-forecast prelim EZ inflation data; ECB's Villeroy notes hikes over, absent shocks; Baker Hughes oil rigs rise; PFE to halt development of its twice-daily obesity pill; AAPL/PARA discuss bundling streaming services; Hot Chinese PMI data.
- **WEEK AHEAD**: Highlights include US jobs report; China CPI, trade data; RBA, BoC rate decisions. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing Riksbank, RBA, BoC, RBI; Reviewing RBNZ. To download the report, please click here.

## MARKET WRAP

The major indices were largely firmer on Friday although there was particular outperformance in the Russell 2k with regional banks and cyclicals finding a particular bid. That was a result of the yield backdrop with the Treasury curve seeing massive bull-steepening (2s -16bps vs 10s -13bps) in wake of the soft ISM manufacturing survey and Fed Chair Powell's remarks that were deemed not hawkish enough to offset the genie unleashed by Waller on Tuesday. Tech generally underperformed with the Nasdaq marking mild gains. The Dollar was sold amid the dovish Fed repricing, with now over 130bps of cuts priced through 2024 vs 115bps before Powell; a March cut is now implied as a 75% probability and even a 10% chance for January. But the Euro was also sold after ECB's Villeroy declared that rate hikes are over, absent any shocks. The Yen took the narrowing policy outlooks in its stride. Oil prices had been rangebound in tight ranges for most of the session until breaking out to the downside on the back of the rise in oil rigs reported in the weekly Baker Hughes US rig count. Metals took fondly to the dip in the Dollar and the cyclical appetite, with spot gold testing YTD peaks above USD 2,070/oz.

## US

**POWELL** in his prepared remarks at a Spelman College event, said, "It would be premature to conclude with confidence that we have achieved a sufficiently restrictive stance, or to speculate on when policy might ease", adding that the Fed is "prepared to tighten policy further if it becomes appropriate to do so." The Fed Chair said the central bank is making decisions meeting-by-meeting and based on the totality of the incoming data, also noting that the risks of under- and over-tightening are becoming more balanced. The remarks were a slight pushback vs Waller's notably dovish comments earlier in the week. Regardless, there was a strong dovish reaction in markets after the comments, where there were clearly some concerns Powell could have been more hawkish, instead leaving participants to focus on the more forward-looking/speculative Waller comments. 130bps of cuts are now priced across 2024 vs 115bps before Powell, with a 10% implied cut now in January and a 75% implied cut in March. On the outlook, Powell said he and his colleagues expect growth in spending and output will slow over the next year as the effects of the pandemic and the reopening fade and as restrictive monetary policy weighs on demand, whilst caveating the uncertainty around the outlook is "unusually elevated". In his Q&A, Powell said consumer spending has been surprisingly strong, but noted credit card use and defaults mean spending may be slowing. Whilst on inflation, he noted his pleasure in the recent softening whilst also warning about the progress still needed to bring core inflation down from its current 3.5% level.

**GOOLSBEE (2023 voter, dove)**, speaking at a Chicago Fed event, said the Fed is on track to achieve 2% inflation, with inflation coming down exactly as the Fed wants, "there's no evidence that we've stalled at 3%." He said housing inflation is the "highlight" of what he is watching, saying if it returns to pre-COVID levels, then the Fed would be on the path to 2%. He did caveat that shocks remain a possibility, and previous soft landings have been derailed by those. He also warned that if inflation is not on the path to 2%, even with the unemployment rate going up, the Fed would not stop tightening. But that is not what he is seeing, saying the employment side is looking excellent and inflation coming down rapidly, and is not nervous about a "hypothetical" trade-off between employment and inflation. When asked what he sees as the biggest possible risk to the US economy in the coming year, he said a "meltdown in China". Note that Goolsbee already spoke on Tuesday, ahead of the PCE report this week, saying to NPR that he has some concerns about keeping rates too high for too long.

**ISM MANUFACTURING**: ISM Manufacturing was unchanged at 46.7 in November, against expectations for a recovery to 47.6. New orders and prices paid rose to 48.3 (prev. 45.5) and 49.9 (prev. 45.1), respectively, and ahead of the BLS payrolls report next Friday, Employment fell to 45.8 from 46.8. Production fell back into contractionary territory, 48.5 from 50.4, while inventories lifted to 44.8 (prev. 43.3) and backlog fell to 39.3 (prev. 42.2). Supplier deliveries, imports and new order exports all declined. Of the six biggest manufacturing industries, two (Food, Beverage & Tobacco Products and Transportation Equipment) registered growth in November. The report notes, "The past relationship between Manufacturing PMI and the overall economy indicates that the November reading corresponds to a change of minus-0.7 percent in real GDP on an annualized basis". Looking ahead, Oxford Economics quips, "Contrary to market expectations, we expect the Fed to remain on pause until Q3 '24, which, alongside tight lending conditions, will restrict business investment." Although, Oxford expects consumption growth to remain positive in the coming quarters, and sees services spending contributing to bulk of the strength, as goods spending declines outright, with durable goods the most impacted. Inventory levels, which were a source of strength for GDP in Q3, are likely to pull back in the face of weak demand.

## FIXED INCOME

### T-NOTE (H4) FUTURES SETTLED 28 TICKS HIGHER AT 110-21+

**Yields ended the week at lows after the soft ISM Mfg. was followed by a lack of hawkish bite in Fed Chair Powell's remarks**. 2s -15.6bps at 4.559%, 3s -15.7bps at 4.319%, 5s -14.9bps at 4.149%, 7s -14.1bps at 4.224%, 10s -13.1bps at 4.219%, 20s -12.0bps at 4.575%, 30s -10.7bps at 4.404%.

**INFLATION BREAKEVENS**: 5yr BEI -2.1bps at 2.156%, 10yr BEI -2.7bps at 2.225%, 30yr BEI -3.5bps at 2.307%.

**THE DAY**: Treasuries had been choppy and rangebound during the APAC session and European morning on Friday, with dealers noting de-risking ahead of Powell. T-Notes had at first been dancing on either side of 110, fading beneath after the hot Chinese PMI data, whilst eclipsing the round level again in the London morning. However, contracts faded to session lows of 109-25 in the NY morning, despite WSJ's Timiraos' comment that Fed hikes are probably over, but officials are reluctant to say so.

The bid got going for fixed income later in the NY morning, at first amid spillover from EGBs after ECB's Villeroy declared that absent any shocks, rate hikes are over. But T-Notes ripped to new highs on the back of the ISM manufacturing survey, with the index flat M/M against expectations for a rebound despite the rise in the prices paid sub-index (albeit still remaining in contractionary). 110-10 served as resistance ahead of Powell. And after the Fed Chair's speech was released, absent the slight kneejerk hawkish reaction, better buying soon developed with the comments lacking the hawkish bite some had expected, and Treasuries didn't look back, seeing T-Notes peak at 110-25 later in the NY afternoon - sell side desks have been flagging the potential for more CTA inflows recently, which one could suspect played a part in the grind higher into the weekend with no coupon auctions next week from the Treasury to make room for. Note the cash 10yr yield marked a low of 4.21%, the lowest since early September.

**FED PRICING**: 130bps of cuts are now priced across 2024 vs 115bps before Powell, with a 10% implied cut now in January and a 75% implied cut in March. Markets currently see the FFR bottoming around 3.25% at the beginning of 2026.

**STIRS**:

- SR3Z3 +2bps at 94.6425, H4 +9.5bps at 94.915, M4 +17bps at 95.30, U4 +22bps at 95.69, Z4 +23bps at 96.025, H5 +21.5bps at 96.295, M5 +19bps at 96.47, U5 +16bps at 96.55, Z5 +15bps at 96.57, Z6 +13bps at 96.49, Z7 +12.5bps at 96.365.
- SOFR rises to 5.33% as of Nov 30th from 5.31%, volumes spike to USD 1.850tln from 1.578tln amid month-end.
- NY Fed RRP op demand at USD 0.769tln (prev. 0.888tln) across 90 counterparties (prev. 95).
- EFFR flat at 5.33% as of Nov 30th, volumes fall to USD 91bln from 96bln.

## CRUDE

### WTI (F4) SETTLED USD 1.89 LOWER AT 74.07/BBL; BRENT (G4) SETTLED USD 1.98 LOWER AT 78.88/BBL

**The crude complex was largely sideways after Thursday's OPEC+ debacle, until the weekly Baker Hughes rig count saw oil tumble to session lows**. On the latter, on account of oil rigs rising 5 to 505 (leaving the total +5 to 559) WTI and Brent trundled to session lows at the settlement, with WTI and Brent breaching beneath USD 74.50/bbl and 79.50/bbl, respectively, marking slight losses on the week after the rally earlier in the week faded post-OPEC+.

Additionally, as the complex saw downside (in wake of Baker Hughes) the US DoE said oil companies will return 4mln barrels of oil to US SPR by February from the previous exchange, and the US seeks to buy up to 3mln more barrels for SPR for February delivery. Elsewhere, energy-specific newsflow was rather thin on Friday. Prices saw little reaction from a weak ISM Mfg. report, nor from Fed Chair Powell, who ignited a broad dovish market reaction, highlighted by 131bps of cuts priced in by end-'24 (116bps before Powell). Looking to next week, highlights include Chinese CPI and US Jobs report (Fri).

**OPEC+**: For November, Russian Finance Ministry said Urals crude blend traded at an average of USD 72.84/bbl (81.52 /bbl M/M), while Iraq's oil ministry said exports averaged 3.433mln BPD (prev. 3.5mln BPD) at USD 82.66/bbl (prev. 88.26/bbl).

## EQUITIES

**CLOSES**: SPX +0.59% at 4,594, NDX +0.31% at 15,997, DJIA +1.82% at 36,245, RUT +2.96% at 1,862.

**SECTORS**: Real Estate +2.11%, Industrials +1.57%, Consumer Discretionary +1.27%, Utilities +1.25%, Materials +1.09%, Financials +0.74%, Energy +0.48%, Consumer Staples +0.38%, Health +0.36%, Technology +0.17%, Communication Services -0.23%.

**EUROPEAN CLOSES**: DAX +1.12% at 16,397.52, FTSE 100 +1.01% at 7,529.35, CAC 40 +0.48% at 7,346.15, Euro Stoxx 50 +0.79% at 4,417.25, AEX +0.83% at 771.37, IBEX 35 +0.82% at 10,140.80, FTSE MIB +0.64% at 29,928.45, SMI +0.37% at 10,894.50.

**STOCK SPECIFICS**: **Paramount Global (PARA)** and **Apple (AAPL)** discussed bundling their streaming services at a discount, according to WSJ. **Pfizer (PFE)** said it would halt development of its twice-daily experimental weight-loss pill. **Marvell Technology (MRVL)** next quarter guidance was light. Ahead, exec said strong growth from AI and cloud will carry it through a softening demand environment in other end markets; these dynamics are reflected in its guidance. **Ulta Beauty (ULTA)** topped expectations on EPS, revenue, and comp. sales. Narrowed FY23 guidance towards the top end of previous ranges. **Dell Technologies (DELL)** missed on revenue due to a slower-than-expected recovery in the hardware and software market. By segment, Q3 Infrastructure Solutions, Commercial, Consumer, and Storage sales missed with Q4 guidance light. **Elastic (ESTC)** beat on the top and bottom line. Q3 revenue view topped and raised FY24 guidance. **Samsara (IOT)** topped Wall St. expectations on EPS and revenue. Exec said that in the quarter it achieved the milestone of surpassing USD 1bln ARR. Q4 revenue guide beat and lifted FY24 outlook. **Disney (DIS)** reinstated quarterly dividend of USD 0.30/shr for H2 FY23. **Alibaba (BABA)** was downgraded at Morgan Stanley noting concern over a slower-than-expected rebound in Alibaba's cloud segment. **Ford (F)** CEO said the F-150 Lightning had its best sales month in November. Activist investor Blackwell Capital reportedly plans to nominate directors to **Wendy's (WEN)** board, according to Reuters sources.

## WEEKLY FX WRAP

**Macro releases still influential, but Central Bank rhetoric pivotal**

**USD/EUR** Fed Chair Powell headlined Friday's agenda and his remarks garnered even more attention than normal given somewhat mixed messages from other officials ahead of the impending blackout period before December's FOMC policy meeting. In sum, market expectations for easing much earlier than the Fed is signalling seemed to be vindicated when hawk Waller said he is increasingly confident that policy is well positioned to slow the economy and get inflation back to 2%, adding there are good economic arguments that if inflation continues to fall for several more months, then you could lower the policy rate and if inflation consistently declines there is no reason to insist that rates remain really high. However, Daly countered by saying it's too soon to call time on hikes and premature to declare victory against inflation, adding that the Fed is currently on the way to temporarily reaching 2%, but is not interested in temporary price stability, so she does not want to take any meeting off the table because we are constantly collecting data and there is still a lot to come before December's FOMC. Hence, the heightened focus on Powell and in the first of his two scheduled appearances he was relatively neutral as highlighted by his opening lines - FOMC moving forward carefully as risks of both under- and over-tightening are becoming more balanced, it is premature to conclude with confidence that the Fed has achieved a sufficiently restrictive stance, or speculate on when policy might ease - see 15.58GMT post on the Headline Feed for more. Meanwhile, data continued to show disinflation via PCE price metrics, but overall strength in the US economy with an upgrade to Q3 GDP and a booming Chicago PMI, albeit boosted by Boeing orders and not reflected in the manufacturing ISM. Indeed, the latter missed in headline terms and the employment component contracted at a faster pace to offset a marked improvement in new orders and prices paid rebounding to just shy of 50.0. This knocked the Dollar and DXY back down after the latter rebounded to a new w-t-d peak, mainly on the back of more pronounced Euro depreciation. On that note, Eur/Usd had already shied away from 1.1000+ highs amidst considerably cooler than forecast preliminary Eurozone inflation data, but slumped to a fresh low circa 1.0830 following comments from ECB's Villeroy. In short, he stated that disinflation is even faster than anticipated, data supports the Bank's view of a return to 2% inflation and absent any shocks rate hikes are over. Back to the Buck, and looking at the index specifically, it extended to 103.72 from Wednesday's 102.46 trough and could have clawed back more losses without Yen outperformance on yield dynamics and Loonie strength post-Canada's employment report.

**AUD/NZD/CAD -** The Aussie got an overnight boost courtesy of China's Caixin PMI returning to expansion, but also renewed risk appetite to overcome sub-consensus monthly CPI prints and a downward revision to final retail sales. Accordingly, Aud/Usd consolidated above 0.6600 and towards the top of a 0.6676-0.6568 range, but trailed behind Nzd /Usd between 0.6208-0.6062 extremes as the Kiwi outperformed following a hawkish RBNZ hold with a tweak to guidance, mildly higher OCR trajectory and firmer CPI projections. Thus, the Aud/Nzd cross remained depressed having reversed from 1.0860 to the brink of 1.0700. Elsewhere, the Loonie ended the week with a strong Canadian LFS to remove any residual disappointment with a shock Q3 Q/Q annualised GDP contraction and deflect from ongoing reverberations in the crude complex post-OPEC+ additional output cuts that were deemed bullish in knee-jerk reaction. As such, Usd/Cad probed 1.3500 compared to 1.3661 at the other end of the weekly scale regardless of the fact that the BoC is widely seen extending its on hold sequence to three in a row next week, and RBC looks for a dovish accompanying statement.

**JPY/CHF -** Another swoon in yields ensured that the Yen and Franc netted gains against the Greenback, but Japanese data and wage developments also weighed on Usd/Jpy even though BoJ members maintained that it is too soon to shift from ultra-accommodation. Similarly, Swiss macro news was mostly positive ahead of key CPI next week that will include the increased rental factor and go a long way to determining what the SNB will do at its last quarterly review of 2023. Usd/Jpy duly recoiled to 147.00 and Usd/chf to 0.8700 within 149.67-146.68 and 0.8828-0.8686 respective bounds.

**GBP -** The Pound performed well with some impetus from a less negative CBI distributive trades survey, more optimistic Lloyd business barometer, firmer than expected Nationwide house prices and an upward adjustment to the final UK manufacturing PMI. However, the fillip for Sterling came from the latest batch of BoE members banging the higher for longer and restrictive for prolonged period rate drum, including Governor Bailey, MPC hike dissenter Haskel and newbie Greene. Cable peaked around 1.2733 vs a trough just beneath 1.2600, while Eur/Gbp tumbled from 0.8688 to 0.8574.

**SCANDI/EM -** Eur weakness played a major part in the Sek and Nok resurgence, but there was independent incentive from better Swedish and Norwegian manufacturing PMIs to supplement their technical correction, while Gold's rush to top Usd 2060/oz helped the Zar shine and the Cny/Cnh got more help from the PBoC's heavy-handed midpoint fixes, Chinese stimulus measures/pledges and the Caixin manufacturing PMI to compensate for official NBS misses. As a result, the Yuans prodded and stayed close to significant chart resistance against the Usd in the guise of 200 DMAs. Conversely, the Try could not glean traction from positive CBRT vibes or Amundi switching out of its Lira shorts.